

Agri-Mark

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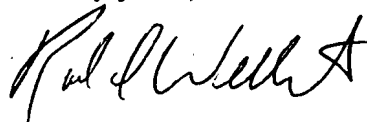
February 2, 2001

Hearing Clerk
Room 1081, South Building
U.S. Department of Agriculture
Washington, DC 20090-6456

To Whom it May Concern:

Agri-Mark, Inc. exceptions in the matter Milk in the Northeast and Other Marketing Areas Tentative Decision, Docket Number AO-14-A69, et. al.; DA-00-03 are submitted herewith. I would be pleased to answer any questions or provide additional information to support our comments.

Sincerely yours,



Robert D. Wellington
Senior Vice President
Economics, Communications,
& Legislative Affairs



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Agri-Mark, Inc.
Exceptions in the Matter
Milk in the Northeast and Other Marketing Areas: ~~Tentative~~ Decision

Docket Number (AO-14-A69, et.al.; DA-00-03)

Agri-Mark, Inc., a dairy cooperative with more than 1400 members located throughout the six New England states and New York takes exceptions in regard to two major issues in the tentative decision. The first involves the difference in butterfat prices for Class III and IV milk and the second involves the elimination of the 1.02 divisor in the Class IV nonfat solids price formula.

As a member of the National Milk Producers Federation (NMPF), Agri-Mark agrees with the comments submitted by that organization in regard to the revised Class III butterfat prices. Such a change was not appropriate given the hearing record. In addition, it would have severe impacts on the orderly marketing of milk as buyers and sellers of cream would often not know the final prices of the products until months after the transaction when Federal Order audits are complete. The change would also send the wrong signal in the marketplace to users of Class III butterfat as those prices would skyrocket as the expense of lower protein prices. Equally troublesome would be the drop in protein prices that would send the wrong signals to producers as many are finally priced according to the protein and other nonfat components in their milk. NMPF and other parties have detailed these impacts in greater precision and Agri-Mark concurs with their conclusion on this issue.

Agri-Mark and several other members of NMPF do not concur with that organizations support for all remaining areas of the decision. Agri-Mark joins with Land O' Lakes and others in strong opposition to the elimination of the 1.02 divisor in the Class IV nonfat solids price formula. Land O' Lakes is submitting exceptions in that regard, and Agri-Mark joins with them on this issue.

My testimony on behalf of Agri-Mark at the hearing was used extensively to justify various components of costs used in USDA's decision. However, this was taken out of context, as my point was to show how a theoretical formula could be developed not to testify on detailed actual costs. Although complementary, it was also disturbing to see USDA use my casual remark that "our plant people have said it's (buttermilk manufacturing costs are) probably one to three" (cents per pound above the nonfat dry milk price). In other areas of this hearing, and in most past hearings, USDA has only relied upon detailed cost information. For example, there was substantially more information on higher whey costs at this hearing, yet, USDA noted it was insufficient for them to take action. When moving beyond a theoretical discussion of the formula to determine real, practical costs, USDA should rely on actual data, even if the remarks are by an "expert".

Agri-Mark also disagrees with USDA's use of the ratio of buttermilk powder to nonfat dry milk powder in Class IV nonfat solids. When calculating Class III prices, USDA uses the prices of block and barrel cheese weighted by their actual volumes in the marketplace survey conducted by NASS. The same principle must be applied when looking at how the components in a particular class of milk are being used. USDA assumes that 95.7% of the nonfat solids in Class IV milk are being used for nonfat dry

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milk production and 5.3% are being used for buttermilk powder production because that is the distribution in producer milk. However, Class IV products provide a balancing role for the Class I market in particular. The average butterfat test of Class I milk was 2.0% in the Northeast Marketing Area in January - March 2000 according to the Market Administrator's monthly statistics in the record. The total butterfat utilization during those months was over 3.9%, necessitating that more butterfat move to Class IV uses. Butterfat in Class IV uses originates as cream with substantial volumes of nonfat solids destined to become buttermilk powder. During the three months mentioned and in the record, the butterfat test of Class IV milk ranged from 5.34% to 5.94% and averaged 5.67%.

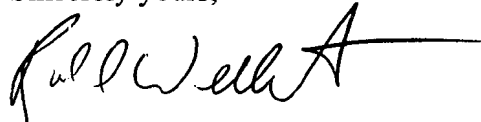
Using a Class IV butterfat test of 5.67% requires that 8.55 pounds of skim milk be utilized to carry 5.67 pounds of butterfat as 40% cream. This leaves 85.78 pounds of skim milk available for nonfat dry milk production. As a result, 9.06% of the Class IV nonfat solids will become buttermilk powder and 90.94% will become skim milk powder. Although, as noted in the Land O' Lakes testimony, we disagree with the 1.01 yield factor, using it for this analysis to isolate the impact of the actual uses of nonfat solids shows a weighted proportion of .0915 for buttermilk powder instead of the .053 used by the tentative decision. Correspondingly, a percentage of .9185 should be used for nonfat dry milk in place of the .957 in the decision. This generated a value of only \$.878 instead of \$.887. Subsequently, the \$.89 generated by the formula without the divisor must be divided by a factor of 1.014 to get to the \$.878 value.

The mathematics clearly shows that the divisor on the butterfat test issue alone should be at least 1.014. However, given the other issues noted by Land O' Lakes, the divisor should actually be 1.02 or higher. No one proposed raising the divisor above 1.02 so USDA should return it to the original factor. If a change is warranted, then it should be based on detailed costs, yield, and actual Class IV use information. When USDA sets a minimum price that clearly overprices the nonfat solids used in the classification, it is particularly burdensome to cooperatives, who use Class IV products to balance the market.

Buttermilk powder has higher manufacturing costs, lower yields, lower prices, and uses a higher proportion of the nonfat solids than used by USDA in the tentative decision to justify their elimination of the 1.02 divisor. However, if USDA disputes that conclusion, then they should hold a hearing where actual data is used to justify a change that so negatively impact Federal Order balancing plants.

Agri-Mark appreciates this opportunity to provide our comments on these important issues.

Sincerely yours,



Robert D. Wellington
Senior Vice President
Economics, Communications,
& Legislative Affairs