

Warlick, Carol

From: McKee, Richard
Sent: Monday, February 05, 2001 3:51 PM
To: Brenner, Connie; Warlick, Carol; Borovies, John
Subject: FW: Comment on Interim Final Rule on milk pricing

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-----Original Message-----

From: Byrne Dairy - William Byrne Jr. [mailto:bill.byrne@byrnedairy.com]
Sent: Monday, February 05, 2001 2:34 PM
To: McKee, Richard
Subject: Comment on Interim Final Rule on milk pricing

Dear Mr. McKee and Mr. Rasmussen:

This email is written to comment on the tentative final decision on milk pricing as published in the Federal Register on 12/7/00. My primary comment on the decision is that the change recommended in Class I pricing is arbitrary, not supported by the record, and will result in extreme confusion in the pricing of both Class I and Class II milk.

First, I would like to point out that there appears to be a major inconsistency in the tentative final decision itself. On page 76842 of the 12/7/01 Federal Register, it is stated that "...the Class I butterfat price will be the higher of the advance Class III and advance Class IV butterfat prices plus the applicable Class I differential". However, this is not what is actually adopted in the decision. On page 76849, the final formula is stated to be "The advanced butterfat price used for pricing Class I butterfat would be the butterfat price used in calculating the higher of the advanced Class III or Class IV prices on a 3.5 percent butterfat basis." These two calculations, of course, can give totally different price results.

The same paragraph of page 76849 states that "a conforming change should be made to the procedure for calculating the Class I butterfat and hundredweight prices." My opinion is that the change that was made is in fact not a conforming change. There were other Class I price decisions that could have been made that would logically be just as "conforming" as the ones that were made. There are issues here that were not addressed, and that deserve a public hearing before changes are made.

There is much discussion of the relationship between different class prices in the final decision. However, I find no serious consideration of the relationship between Class I and Class II pricing in the decision, and the butterfat portions of these two classes. Under the final decision, it is possible that Class I and Class II butterfat prices could now change in opposite directions. I contend that there is in fact a strong relationship between Class I and Class II with respect to component pricing, and the changes recommended by the decision will result in confusion in the marketplace.

I also contend that the practical application of the proposed pricing formula to Class I milk will result in very large component price swings. Right now, Class IV pricing would determine Class I values. At the point at which the Class III price determines the Class I butterfat and skim price (as a result of a cheese price increase), there will be a sudden jump in the Class I butterfat value. There will be a corresponding decrease in the cost of Class I skim. So the situation can occur where whole milk will go up in price at the same time that the skim milk price decreases. I am aware that this can in fact happen under existing price provisions. However, the likelihood of opposite direction price changes and large component price swings is far lower under the present system. And if the cheese price declines in the

following month, the values would revert to Class IV pricing. I believe that the volatility created by this decision will create disorderly market conditions.

This entire process started out as a hearing to address problems in Class III and Class IV pricing. However, it has resulted in changes to Class I pricing upon which no comment was heard. At the very least, participants deserve explanation of the inconsistency noted above. I request that if a substantial change is to be made to Class I pricing, a new hearing be held so that these issues can be properly addressed. Thank you.

Yours truly,

William Byrne Jr.

President

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