

**United States Department of Agriculture  
Federal Milk Order Hearing  
January 24, 2006**

7 CFR Parts 1000, 1001, 1005, 1006, 1007, 1030, 1032, 1033, 1124, 1126, and 1131

[Docket No. A0-14-A74, et al.; DA-06-01]

**In Support of Proposal No. 1**

I am Neil Gulden, Director of Fluid Marketing for Associated Milk Producers Inc. (AMPI). My office address is 315 North Broadway, New Ulm, Mn. 56073.

I have worked for AMPI for 36 years in various capacities. The past 30 years, part of my responsibility has been to manage AMPI's milk supply in regard to the Federal Milk Marketing Order Program and represent AMPI's dairy farmer owners at Federal Milk Order hearings.

AMPI represents approximately 4000 dairy farmers in 7 midwest states. Currently our milk is pooled on Federal Orders 1030 (Upper Midwest) and 1032 (Central).

AMPI supports the specific changes proposed by the Agri-Mark witness to adjust the make allowances for cheddar cheese, butter, nonfat dry milk and dry whey.

Manufacturing costs, particularly energy costs, have increased since the last substantive changes were made to make allowances in Class III and IV price formulas in January 2001. This was the

effective date of the tentative decision from a hearing held in May of 2000 to reconsider Class III and IV pricing formulas.

The intent of product price formulas is to establish farm milk prices that allow reasonably efficient plants to earn enough revenue to be able to pay these prices and have enough money left over to cover their manufacturing costs and earn a competitive rate of return on equity. The make allowances in the formulas are critical in achieving this goal. These formulas should reflect general industry conditions and experience.

Fixed make allowances are a particular concern to order-regulated dairy plants when the manufacturing cost assumptions built into make allowances become rapidly outdated. Recent increases in energy costs are a good example. Current make allowances reflect substantially lower fuel and electricity costs than exist today, as illustrated in Agri-Mark's testimony.

If dairy product make allowances are consistently low relative to milk cost, manufacturing margins will be eroded, along with investment in plants and machinery necessary to remain viable. Farmers and processors are partners and both must be profitable over the long run to sustain a healthy dairy industry.

#### **Basis for Emergency Decision**

The final decision adopting revised product-price formulas for establishing Class III and IV milk prices reads: "The prices calculated for the components in Class III milk are intended to reflect

the value of those components in the products from which the prices are calculated “(Federal Register / Vol. 67, No. 216, Nov. 7, 2002, page 67931). That logic also applies to Class IV.

Manufacturers of cheddar cheese, butter, nonfat dry milk and dry whey are seeing margins and consequently reinvestment in these businesses decline. This is not only bad for these plants, but the long term well-being of dairy farmers and their cooperatives.

Manufactured product marketing is national in scope and we all compete against unregulated and state-regulated plants that either don't have a formula make allowance problem or the state-regulated systems have more consistently increased make allowances to keep up with actual costs. In either case the competition is real.

For the above reasons this hearing should have an emergency decision issued as soon as possible.

This concludes my statement.