



February 5, 2001

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

To Whom it May Concern:

The Tentative Final Decision addressing Class III and IV milk pricing under Federal orders reallocated the fat and skim values for milk used in Class III products. This imposes an enormous cost increase on our business.

Level Valley Creamery, Inc. is a manufacturer of various dairy products, headquartered in West Bend, Wisconsin with manufacturing facilities in West Bend as well as Nashville, Tennessee. The Nashville facility manufactures products classified as Class II and Class IV under the Tentative Final Rule announced December 8, 2000. On the other hand, the West Bend facility manufactures cream cheese which is classified Class III and AMF and butter in Class IV under the Tentative Final Rule.

The magnitude of the cost increase resulting from the reallocation of the fat and skim values for Class III products is the greatest for Class III products with relatively high levels of butterfat such as cream cheese. A key milk ingredient in the manufacture of cream cheese is bulk cream, with, on average, 40% butterfat. Had our milk inputs been priced under the provisions of this decision during the 27-month period from October 1998 through December 2000, our costs for bulk cream would have been 22% higher than they were under the Federal order pricing provisions in effect at that time. We have no reason to expect that the price patterns in the near future will be different from that of the recent past, and therefore we actually expect this more than 20% increase in our costs to continue in the foreseeable future. These increases ultimately will pass through to consumers. Significantly higher retail prices usually means significantly lower consumer demand. Which in the end hurts the dairy producer at the farm level.

Prior to the Tentative Final Decision, the value of butterfat in Class III products was based on the wholesale price of butter. This decision changed this valuation to one based on the wholesale price of cheese. Not only does this provision increase the cost of milk inputs to manufacturers of high-butterfat Class III products like cream cheese, it substantially lowers the price to dairy farmers for the other primary component in milk, protein.

Not only did the magnitude of this change in our input costs have dire consequences for our business, but the circumstances of how the decision came about left us little time to adjust our many business relationships with both suppliers and customers. The changes

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visit our website at www.levelvalley.com

Cream Cheese • Sweetened Condensed Milk • Butter • Butteroil/AMF • Milk Powder

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implemented by the Tentative Final Decision disrupted our business greatly with very little notice. The actions of USDA were totally unexpected. The decision was announced by USDA on December 1, 2000 (although we would like to note that the decision was not published in the Federal Register until nearly one week later on December 7, 2000) and implemented on January 1, 2001.

We reiterate that this decision has severe consequences and that we know of no support in the industry for this change. We urge you to focus attention on this matter as soon as possible in order to correct this wrong and prevent its occurrence in the future.

Sincerely,

LEVEL VALLEY CREAMERY, INC.



A.J. Costigan
President/CEO

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