

January 23, 2002

Office of the Hearing Clerk  
USDA, Room 1083, South Building  
1400 Independence Ave., S. W.  
Washington, D.C., 20250

**Re: Comments on Recommended Decision for Milk in the Northeast and Other Marketing Areas**

**Docket No. AO-14-A69, et al.: DA-00-03**

Dear Sir or Madam:

Michigan Milk Producers Association (MMPA) has reviewed the proposed amendments issued by the USDA regarding proposed changes to the Class III and IV pricing formulas and we would like to add the following comments for your consideration:

**Price Series for Use in Manufacturing Formulas.** We support the USDA's decision to continue using the National Agricultural Statistical Service's (NASS) price series for the Class III and IV pricing formulas. We agree that this data provides the broadest range of price information and is representative of the product prices realized by the dairy industry. We also continue to support mandatory reporting and auditing of the NASS results.

**Make Allowances.** We believe that the make allowances as proposed by the USDA reflect a reasonable compromise between the various proposals offered to reduce or increase the levels from the original reform values. We continue to urge caution against the logic presented by IDFA and others that suggest a low risk of setting make allowances too high. We represent over 2,600 dairy farm members that may not all survive a market adjustment period that theoretically might return greater premiums back to producers if make allowances were set too high. We believe that it is critical to use the "right" make allowance for each Class price determination and are satisfied that the adjustments recommended by the USDA will meet that objective.

We were disappointed with the USDA's decision to remove the "snubber" concept from the whey price used in the calculation of the other solids value in the determination of the Class III price. We believe that the value of other solids used in the Class III milk price should add to the value of milk and under no circumstances be allowed to subtract from the milk value. By removing the "snubber" the whey processor no longer has any incentive to search out the best return or least cost alternative of whey disposal. When the whey price does not cover the manufacturing costs of production, the processor should stop processing the whey and consider other disposal options, such as animal feed outlets, which could at least generate a breakeven position or possibly some small amount of income. Therefore, we disagree with the proposal that removes the whey price "snubber" used in the calculation of the other solids value.

**Yield Factors.** We support the yield factors recommended by the USDA for Class IV milk. We believe that the yield factors as proposed by the USDA for butter and nonfat dry milk used in the calculation of Class IV reflect a reasonable compromise between the various proposals that offered to reduce or increase the levels from the original reform values.

MMPA supports the yield factors recommended by the USDA for Class III milk. In analyzing the USDA's recommended changes to the calculation of the protein value in the Class III formula one can reorganize the mathematical formula in a manner consistent with Proposal No. 17 and exhibit 44 presented by MMPA at the Federal Milk Order hearing held May 8-12, 2000, to yield the following:

USDA Proposed Changes:

Protein Price = ((NASS cheese price - .165) - butterfat price x .3234) ÷ .3071

Current Price Formula

Protein Price = ((NASS cheese price - .165) - butterfat price x .3732) ÷ .2915

MMPA has argued earlier that by presenting the protein price formula in this manner it would be easier to understand and explain to users in the dairy industry. As presented in the above format, one can readily see that the USDA's proposed changes will reduce the amount of butterfat value to be subtracted from the cheese price from 37.32% to 32.34%. Logically this makes a lot of sense and is supported by the industry data recognizing that the amount of butterfat in cheddar cheese typically averages about 32%. The legal standard for full fat cheddar cheese requires a minimum milkfat content of 50% by weight of the total solids. At the assumed moisture level of 38% there would be 62% solids with a minimum butterfat content of 31%. It is also industry practice to put slightly more butterfat than the required minimum in order to avoid any penalty for not meeting regulatory standards and to provide better product quality. Given the above understanding, MMPA supports the USDA's recommended changes that result in subtracting approximately 32% of the butterfat value from the cheese value in determining the protein price.

Additional analysis of the current and proposed changes in the above stated format, indicates that the proposed changes will result in a change in the yield factor from .2915 to .3071. This can also be interpreted as saying that the current formula implies a cheese yield of 10.26 lbs. ( $2.9915 \div .2915$ ) per 100 pounds of milk at 3.5% butterfat and protein of 2.9915%. Similarly, the changes proposed by the USDA imply a lower cheese yield of 9.74 lbs. ( $2.9915 \div .3071$ ).

The USDA's decision to propose a protein price formula that implies a cheese yield of 9.74 lbs. per cwt. does not seem consistent with industry data, which consistently supports cheese yields greater than 10 lbs. per 100 pounds of milk. However, we understand that the pricing formulas are not perfect models of the actual production process and that certain allowances must be made for the lower value assumed for whey cream and the fact that the other solids yield from milk used in cheese making is overstated. Therefore, MMPA would support the changes proposed by the USDA for Class III pricing as a reasonable compromise, assuming no further changes.

**Class I Price Mover.** We strongly support using the higher of the Class III or IV prices as the Class I price mover. We feel that the decision to use the higher of III or IV in establishing the Class I price mover has been instrumental in affecting farmers milk prices in a manner designed to assure that milk is marketed to its highest use value at all times. Prior to the implementation of the "higher of" calculation there were times when milk prices for Class I products could not effectively compete with Class III or Class IV prices. We strongly agree with the Department's analysis that using a weighted average of the two prices to set the Class I mover would have a severe impact on the ability of fluid users to attract sufficient quantities of milk during periods when there were large differences between the two class prices. The new system has been much more effective in assuring adequate milk is available for Class I at reasonable prices to meet consumer needs.

**Miscellaneous and conforming changes.** The latest recommended decision proposed changing the classification of anhydrous milkfat, butteroil, and plastic cream from Class IV to Class III. The original rationale for changing the classification from Class III to IV was based on the assumption that these products competed with butter and needed to have a similar cost base for butterfat. We believe that this is still true and we disagree with the recommended decision to move these products back to Class III. As long as the Class III and IV butterfat values are to remain the same, then anhydrous, butteroil and plastic cream should all remain classified as Class IV products.

With the production of butter, all the cream used to produce butter is considered Class IV and the buttermilk generated as a byproduct of churning is also a Class IV product. Administratively, this makes the task of recording utilization simple and straightforward based on the volume of cream used to produce the butter and

buttermilk. If anhydrous, butteroil and plastic cream are changed to Class III products, then it would be necessary to separate out the buttermilk portion of the cream that should be classified as Class IV. It is important that nonfat solids found in buttermilk produced as a byproduct of churning butter should have the same underlying raw material costs as nonfat solids found in buttermilk produced as a byproduct of the anhydrous, butteroil and plastic cream operations. Determining a method of allocating cream solids between buttermilk and the butterfat products would be an unnecessary complication that would be easily avoided by simply leaving all of these products in Class IV. For the above stated reasons, MMPA recommends that the classification of anhydrous milkfat, butteroil, and plastic cream remain as Class IV products.

These comments are submitted on behalf of the Michigan Milk Producers Association which is a member owned and operated dairy cooperative serving over 2,600 dairy farmers in Michigan, Ohio, Indiana and Wisconsin. Thank you for considering our comments.

Sincerely,

Clayton Galarneau  
Director, Manufactured Sales and Operations