

NATIONAL ALL-JERSEY INC.

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January 25, 2002

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

**Re: Recommended Decision for milk in the Northeast and other Marketing
Areas: Class III and IV Milk Price Formulas**

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

National All-Jersey Inc. (NAJ) has joined the consolidated comments filed on behalf of Select Milk Producers, Dairy Farmers of America, Continental Dairy Products, et al. in support of the Class III and Producer protein price formula in the Recommended Decision.

NAJ congratulates USDA on their efforts to refine the Federal Order pricing formulas to better reflect the total value of milk. In particular, NAJ finds that the 0.9-multiplier adjustment on the producer butterfat price now included in the protein pricing formula eliminates the problem of fluctuating margins, and lowering milk prices when butterfat prices rise. This addition to the formula works because the adjustment recognizes that only 90% of the butterfat is captured in cheese, when a 90% fat recovery is assumed in the cheese vat. The other 10 percent not captured in cheese is logically found in the whey. The difference in milk value between the recommended decision and the previous formula can be traced primarily to recovery of this fat value.

As a result, USDA has provided component pricing formulas for butterfat and protein for Class III milk that now more accurately reflect the *total* value of these two components in butter and cheddar cheese. It was a tricky piece of algebra, but the new system, when put to the test of margin analysis, seems to provide extraordinarily stable margins. The details on

the margin analysis are found in the previously mentioned comments of Select Milk Producers, Dairy Farmers of America, et al., supported by NAJ.

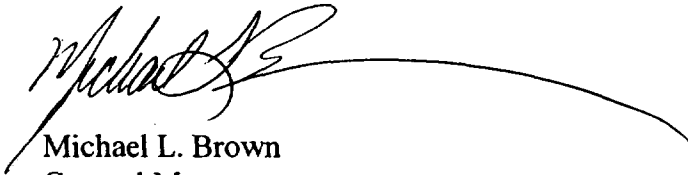
When including the total product value in a product pricing formula, accounting for reasonable plant losses becomes more important. NAJ personally provided no technical evidence on yield losses either inside or outside the plant during the Class III/IV hearing. However, we understand that there is some component loss in the milk transportation and the manufacturing process. If that were not the case, certainly the hundreds of millions of dollars spent by the industry on waste treatment would not have been necessary. On the other hand, we also know that 90% fat recovery is well below the average ability of modern cheese vats to recover fat from milk when manufacturing cheddar. We also know that the USDA formulas do not directly account for the poundage of whey protein in whey, but they also do not account for the small amount of other solids retained in the cheese, as evidenced in Professor David Barbano's written testimony on theoretical product yields at the hearing. (Exhibit 15, Page 15 – First Table)

Thus, NAJ does recognize that there are component losses during the manufacturing process that may or may not need to be considered, if the formulas do not already indirectly take them into account. NAJ also recognizes that price levels within and between regulated markets – including California - must be at levels that allow markets to work properly, provide adequate margin to allow for the proper movement of milk, and provide for reasonable returns from efficient plant operation.

In summary, NAJ strongly supports the framework used by USDA for the Class III Price formulas in their recommended decision. We believe the formulas in the recommended decision now more accurately reflect the relative value of components in product yields, and we congratulate USDA for gleaming them from the hearing record. However, we will defer the arguments on component losses in transportation and plant operation to others commenting on the recommended decision, and respect USDA's decision to use that information properly in developing their final decision.

National All-Jersey Inc. (NAJ) is a national dairy producer organization with over 740 members nationwide. NAJ assists its members in marketing their milk through negotiating non-regulated milk pricing systems and premium programs with milk processors, and by representing the membership on legislative and regulatory issues involving milk marketing regulation and policy.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Brown", with a long, sweeping horizontal line extending to the right.

Michael L. Brown
General Manager
National All-Jersey Inc.