



NATIONAL FARMERS UNION

February 5, 2001

Hearing Clerk
Room 1081, South Building
U.S. Department of Agriculture
Washington, D.C. 20250

USDA
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RE: Comments regarding the Tentative Final Decision on Class III and IV
Docket No. AO-14-A69, et al.: DA-00-03

Dear Hearing Clerk:

These are the comments of the National Farmers Union regarding the Tentative Final Decision on Class III and IV.

1. **Cost of Production** - National Farmers Union is extremely disappointed that the Tentative Final Rule fails to base any portion of the milk pricing formulas on producer cost of production. The Tentative Final Decision argues that the "producer cost of production addresses only the milk supply side of the market," and goes on to report that the Decision is instead based on the NASS-reported prices. NFU would point out that using the NASS price alone is insufficient because it fails to address whether the market is yielding an adequate price for dairy producers. In fact a comparison between USDA-calculated cost of production and the NASS price would indicate that the NASS does not yield adequate prices to producers. Using the CME would result in a similar problem, with the added detriment that the CME market is very thinly traded.
2. **Variable Make Allowance** - With regard to the variable make allowance, the tentative final rule decision states that "the concept of assuring that as costs of production increase, manufacturing allowances would decline to the extent product prices do not also increase, has appeal." However, the decision goes on to reject the variable make allowance, concluding that it would not work, because processors could go out of business if they fail to attain their costs of production. That conclusion fails to recognize that processors could avoid receiving the lower make allowance by increasing the product price.

In addition, rejecting the variable make allowance fails to address the parallel potential problem that the decision notes on behalf of processors, i.e., the problem of producers going out of business if they fail to attain their costs of production—a situation that could also lead to consumer shortages in the availability of dairy products.

In the "Approaches to Make Allowances" section, the Decision cites NFU testimony that states, "the pricing system effectively isolates the manufacturing side of the industry from supply and demand forces, leaving the producers to bear the burden of changes in supply and demand." This problem is left unaddressed by the Tentative Final Decision.

3. **Make Allowance Modifications** - The decision contains "minimal" decreases in the make allowance for cheese and increased make allowances for butter and nonfat dry milk. While reducing the cheese make allowance was a step in the right direction, we believe the reduction should have been greater. Further, NFU does not support increasing the make allowance for butter and nonfat dry milk. Again NFU could support an increased make allowance, if the make allowance was tied to producer cost of production and market price, through implementation of a variable make allowance.
4. **Class III and IV Disparity** - Prior to implementation of the revised Federal Milk Market Order, USDA predicted that the Class III price would probably be higher than the Class IV price approximately six months of the year. The first year of experience under the system shows that the projection was just wrong. In fact, the Class III price has lagged behind the Class IV price all year long, and in some months that difference has been well over \$2.00 per cwt. This has caused a severe inequity for producers whose milk is primarily used for Class III, and is particularly disturbing since cheese products have produced the greatest growth in dairy demand. Therefore, while the market has demanded more cheese, the cheese price has decreased to producers. This disparity will not be corrected by the Tentative Final Rule.
5. **Baseline Assumption Incorrect** - The Tentative Final Rule noted several baseline assumptions that were used for the impact analysis. The first assumption was that the price support program would end on December 31, 2000. We note that the price support program has been extended by Congress for another year, and therefore raise the question as to whether the change affects USDA's impact analysis.

Thank you for the opportunity to provide further comments on USDA's review of Class III and IV pricing. If you require further information about these comments, please contact NFU's Washington D.C. office at 202-554-1600.

Sincerely,



Leland Swenson
President