

All-Jersey Milk®
Equitable Milk Pricing

NATIONAL ALL-JERSEY INC.

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RECEIVED

February 5, 2001

Office of the Hearing Clerk
USDA, Room 1081, South Building
1400 Independence Ave., S. W.
Washington, D.C., 20250

FAX: 202-720-9776

RE: Milk in the Northeast and Other Marketing Areas
National All-Jersey, Inc. Comments on Tentative Decision

Please find attached the following document:

Comments of National All-Jersey Inc. on Class III Butterfat and Protein Pricing Formulas
Docket Number (AO-14-A69, et. al.: DA-00-03)

The Original Copy of this document will be following by overnight carrier. Please let me know if you have any questions regarding this document.

Sincerely,



Michael Brown
General Manager
National All-Jersey Inc.

CC: Connie Brenner, Order Formulation Branch, Dairy Division, AMS, USDA
(FAX: 202-690-0552)
Richard McKee, Deputy Administrator, AMS, USDA
(FAX: 202-690-3410)

Attachment (2 Pages)

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**Milk in the Northeast and Other Marketing Areas; Tentative Decision
Docket Number (AO-14-A69, et. al.: DA-00-03)
Comments of National All-Jersey on Class III Butterfat and Protein Pricing Formulas**

National All-Jersey Inc. (NAJ) appreciates the opportunity to file comments in regards to the Tentative Decision on Class III and IV pricing formulas. NAJ appreciates the diligent work that USDA staff has put into developing this tentative rule. However, we would like to comment on several issues relating to the Tentative Final Decision.

National All-Jersey recommends USDA return to the general format previously used for the Class III butterfat and protein formulas. NAJ was one of 79 companies signing the industry support document for Class III butterfat and protein formulas. NAJ supports the reasoning and recommendations included in that document, and urges USDA to return to the general format previously used for the Class III butterfat and protein formulas. That document was also submitted on NAJ letterhead.

National All-Jersey strongly discourages USDA from calling another hearing on the Class III butterfat and protein pricing issue. It is clear from the broad industry support for return to the general formulas used for butterfat and protein under original reform that there is no significant support for an additional hearing at this time. NAJ understands that many other organizations are filing comments that do not support any additional hearing at this time.

National All-Jersey also understands the challenges USDA faces in developing a pricing program that is both understandable by producers and that reflects milk values. This dilemma is apparent in the efforts USDA made in the tentative final rule to make a 3.5% reference price for Class III milk that does not change when butterfat prices change. However, if that price is to reflect the market value of milk in Cheddar cheese, that price shift is perhaps impossible to correct, without creating larger problems. That is because manufacturing cheddar cheese requires more butterfat than is found in milk at the reference tests of 3.5% butterfat, 2.99% true protein, and 5.69% other solids.

David Barbano helps explain this in Hearing Exhibit 15, "Class III Milk Pricing - An Evaluation of Assumptions and Calculations". On page 4 of this exhibit, Barbano charts the impact of increasing butter prices on the cheese price at different levels of butterfat and fat:protein ratios. The chart shows how the previously adopted federal order formulas provide a flat price, at 3.82% butterfat and 2.99% true protein. There is a sound reason for this, as Cheddar is a higher fat cheese than any other large volume cheese, except cream cheese. The Dairy Products Annuals, published by NASS, USDA, attest to the relative production of the major cheese varieties.

Barbano also shows in the previously mentioned chart that milk prices decline at 3.5% butterfat when fat prices increase. He also notes the fat:protein ratio in 3.5% milk - 1.17. This choice would give you a flat milk price at 3.5% with changing butter prices, but it would also result in a lower milk price, both at

National All-Jersey Inc. Comments on Class III/IV Pricing

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3.5% fat and at average market test. It would also be below the normal fat:protein ratio found in both cheddar milk and average Class III milk, as discussed below. It would also lower producer prices at market average test, compared to the current price formulas.

Barbano notes on Page 25 of the previously mentioned exhibit that he believes that the default milk composition should represent the milk used by cheese makers. Of course, Class III milk gives us another reference for determining the proper fat:protein ratio that could be used in the Cheese Yield Formula. The average fat:protein composition of all class III milk in 2000 works out to about 1.22:1. Keep in mind this factor is below 1.28, but all types of cheese were manufactured from this milk, not just cheddar. Also, Barbano notes that the usual fat recovery in cheddar is most likely higher than 90%. Hearing testimony by Hollon and Vanden Heuvel made similar arguments.

Another important factor to consider is the butterfat recovery in cheese. NAJ understands that several comments from industry will support raising the 1.582 factor, which reflects 90% fat recovery, because more fat than that is normally recovered during the Cheddar making process. By logic, it can be understood that a lower fat:protein ratio necessitates a higher fat recovery than the current 90%. If more fat is recovered in cheese, then less fat should be necessary in the vat to make the process work. If USDA believes the fat:protein ratio should be lowered, it should be done not only to make the 3.5% fat price more stable, but to reflect the higher fat recovery necessary to make full-fat cheddar when milk of a lower fat:protein ratio is used. Thus, if a lower fat:protein ratio was to be used, a higher fat recovery in the cheese equation would also be logical, in order to reflect the higher fat recovery needed to make full-fat cheddar from a lower fat raw milk supply.

As mentioned before, NAJ supports the return to the same general format for the Class III butterfat and protein formulas as used in the past. Like most of the industry, NAJ believes that USDA had a workable Class III component pricing program prior to the tentative rule, and can return to a program welcomed by industry by adopting a pricing program based on the general format for Class III Fat and Protein components implemented with original Federal Order reforms. If USDA is to consider lowering the 1.28 factor in the protein price formula, we strongly encourage USDA to consider raising the cheese-fat factor from 1.582 to reflect the higher fat recovery necessary to make full-fat cheddar from milk with a lower fat:protein ratio.

Sincerely,



Michael Brown
General Manager
National All-Jersey Inc.