**UNITED STATES DEPARTMENT OF AGRICULTURE**

**BEFORE THE SECRETARY OF AGRICULTURE**

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| **In re:** | **)** | **Docket Nos. AO 14-A69, *et al.*; DA-00-03** |
| **Milk in the Northeast and** | **)** | |
| **Other Marketing Areas** | **)** | |
| | **)** | |

# COMMENTS OF SCHREIBER FOODS, INC. REGARDING THE RECOMMENDED DECISION

Schreiber Foods, Inc. welcomes the opportunity to file comments with respect to the recommended decision regarding changes to the Class III and IV pricing formulas, published on October 25, 2001 (66 Fed. Reg. 54063-96).

Schreiber Foods recognizes USDA's continuing efforts to develop the best milk pricing system possible. We also recognize the difficulty of formulating a system that is responsive to market conditions as well as providing equal opportunity to succeed for all aspects of the dairy industry.

Schreiber will focus its comments on two troubling aspects of the recommended decision, however, we also note that there are several areas of the USDA recommended decision that we support. Those areas of support include:

A. The increase in the dry whey make allowance from 14 cents to 15.92 cents;

B. The elimination of the snubber for the other solids price;

C. Use of the NASS survey rather than the CME; and

D. Not using the cost of production to set minimum Federal Milk Order milk prices.

Turning now to the more troubling aspects of the recommended decision, Schreiber will focus on the need to adjust the barrel price due to moisture content; and the need to implement a system that reflects marketplace corrections in a dynamic industry.

## I. Barrel Cheese Price in Formula is Overstated by Two Cents

Schreiber believes that the recommended decision is mistaken when attempting to increase the price of cheddar cheese in 500-lb barrels by 3 cents rather than one cent when computing the average cheese price used in the protein formula.

The issue of barrel cheese price in the Class III formula is critical to maintaining gross margin for cheese plants; and therefore to continued production and growth of this product category. Within the price survey, 500-lb barrels make up over two-thirds of the cheese, thus demonstrating the importance of this issue.

It appears that the final decision was based on hearing testimony, where a number of parties supported maintaining a three cent difference between cheese sold in 40-lb blocks and 500-lb barrels. Unfortunately, the recommended decision overlooked the fact that those parties were addressing the price spread that exists between the price of

40-lb blocks at an average moisture content and the price of 500-lb barrels adjusted to 30 percent moisture. The tentative final decision bases its weighted average cheese price on 500-lb barrels adjusted to 38 percent moisture. This adjustment already accounts for two of the three cent difference in the price of 40-lb blocks versus the 500-lb barrels.

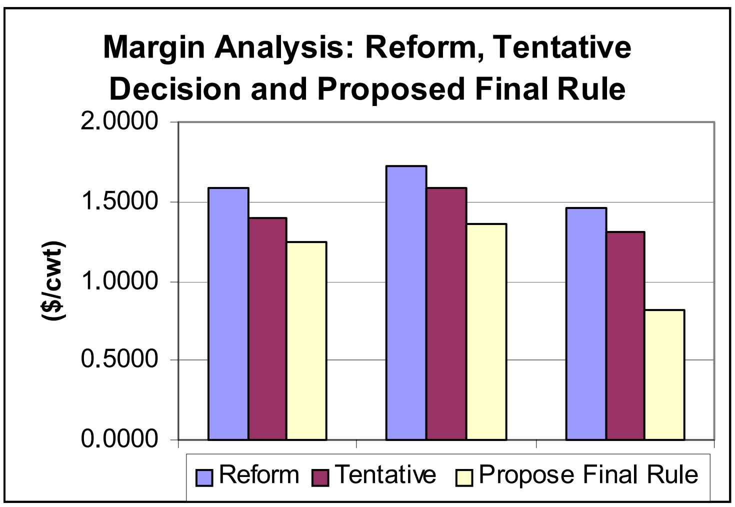
Unless it is the intent of the recommended decision to attribute some of the block and barrel price difference to factors other than moisture, the decision should be adjusted to offset the two cent increase in price resulting from the change in standard moisture.

## II. Recommended Decision Reduces Ability to Adjust to Marketplace Conditions

While flawed, the previous federal order system, based on the Minnesota-Wisconsin price survey, did provide greater flexibility than the recommended decision. Schreiber is not a proponent of going back to the old M-W system. However, we find that the recommended decision continues to erode handler's ability to adjust pay prices based on changes in cost, competition and supply and demand. In turn, this will continue to erode margin and significantly reduce the investment in new technology and limit expansion of dairy facilities.

As cheesemakers attempt to adjust to changing market conditions while forced to live within the constraints of the recommended decision, we will see margins tightened. In the past, premiums were sometimes used to adjust payment to reflect volatile conditions - weather, energy costs, shifting production, etc. Under the recommended decision, the flexibility needed to meet the fast paced needs of the marketplace will be lost.

The margins available for manufacturers to respond to market conditions have continued to narrow during federal order reform. The bar chart below graphically illustrates the impact on margin by the federal order reform.




The illustrated reduction in regulated margin is not in the best interest of any portion of dairy industry. The industry must be able to respond quickly to the changes in environment, competition, and product production and availability.

**CONCLUSION**

In conclusion, Schreiber Foods, Inc. asks for consideration of the changes referenced above.

Respectfully submitted,

SCHREIBER FOODS, INC.

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