September 28, 2006

Mr. Gino Tosi, Associate Deputy Administrator
USDA/AMS/Dairy Programs
Order Formulation and Enforcement Branch
Stop 0231-Room 2971
1400 Independence Avenue, SW
Washington, DC 20250-0231

Re: Proposal on Make Allowances for Reconvened Hearing

Dear Mr. Tosi,

The 309 dairy producers who are member/owners of Southeast Milk, Inc. (SMI) make this proposal for the Make Allowance Reconvened Hearing. The 309 dairy producers of SMI are regulated in either Florida or Southeast Federal Orders. The basis of this proposal is to leave Class I prices unchanged.

PROPOSAL:
SMI's proposal is to have Class I prices calculated with the same make allowances that are currently used to in the Class III and IV price formulas. SMI believes that Class I prices should not change as the make allowances are adjusted. There is no basis for granting a change to make allowances used to calculate the Class I price.

The following is the proposed language change.

1000.50 (q) (1) (i) Use the weighted average of the 2 most recent NASS U.S. average weekly survey prices announced before the 24th day of the month for computing a protein price and other solids price;

(1) Protein price. The protein price per pound, rounded to the nearest one-hundredth cent, shall be computed as follows:

(i) Compute a weighted average of the amounts described in paragraphs (q)(1)(i)(1)(i) and (ii) of this section:

(1) The U.S. average NASS survey price for 40-lb. block cheese reported by the Department for the month; and

(2) The U.S. average NASS survey price for 500-pound barrel cheddar cheese (38 percent moisture) reported by the Department for the month plus 3 cents;

(ii) Subtract 16.5 cents from the price computed pursuant to paragraph (q)(1)(i)(1) of this section and multiply the result by 1.383;

(iii) Add to the amount computed pursuant to paragraph (q)(1)(i)(1)(ii) of this section an amount computed as follows:

(1) Subtract 16.5 cents from the price computed pursuant to paragraph (q)(1)(i)(1) of this section and multiply the result by 1.572;

(2) Subtract 0.9 times the butterfat price computed pursuant to paragraph (l) of this section from the amount computed pursuant to paragraph (q)(1)(i)(1)(iii) of this section; and

(3) Multiply the amount computed pursuant to paragraph (q)(1)(i)(1)(iii)(2) of this section by 1.17.

1000.50 (q) (1) (ii) Multiply the protein price computed in paragraph (q) (1) (i) (1) of this section by 3.1;

1000.50 (q) (1) (iii); Other solids price. The other solids price per pound, rounded to the nearest one-hundredth cent, shall be the U.S. average NASS dry whey survey price reported by the Department for the month minus 15.9 cents, with the result multiplied by 1.03.

(1) Multiply the other solids price per pound computed in paragraph (q)(1)(i)(2) by 5.9; and

1000.50 (q) (1) (iv) Add the amounts computed in paragraphs (q) (1) (ii) and (q) (1) (iii) (1).

1000.50 (q) (2) An advanced Class IV skim milk price per hundredweight, rounded to the nearest cent, shall be computed as follows:

(i) Use the weighted average of the 2 most recent NASS U.S. average weekly survey prices announced before the 24th day of the month for computing a nonfat solids price; and

(ii) Nonfat solids price. The nonfat solids price per pound, rounded to the nearest one-hundredth cent, shall the U.S. average NASS nonfat dry milk survey price reported by the Department for the month less 14 cents and multiplying the result by .99.

(iii) Multiply the nonfat solids price computed in paragraph (q) (2) (ii) if this section by 9.

JUSTIFICATION:

There is no justification to lower Class I prices which increased make allowances will do. Class I processors have the ability to pass along increased processing and packaging costs through higher wholesale and retail prices. Class I processors can and do make the adjustment to higher processing costs through the pricing of the finished product. For example, SMI operates two fluid milk processing plants. In the pricing formulas set up to announce the monthly price changes, the plants have the ability to pass along any increase in resin, caps, plant energy costs and other related costs. Attached is exhibit 'A' highlighting the average retail price for whole milk and the Class I price mover. This shows that processors have been able recoup their additional costs in bottling fluid milk. Adjusting the Class I price with the make allowance adjustment will allow the processors and retailers an opportunity for windfall profits, all at the expense of the dairy producer.

Lowering Class I prices while making changes to the make allowances that lowers the Class II, III and IV prices will negatively affect producers' income in the Southeast region of the United States, where the milk supply is already deficit. Class I utilization in the Florida Federal Order averages over 82% throughout the year. Therefore the Class I price accounts for the majority of the producers' pay price in Florida. Annually the Class I mover accounts for about 65% of the dairy farmer pay price. To erode producer income in an area already short in milk supply, will cause more producers to exit the business in this geographic region of the country.

In the Southeast Federal Order, the dairy industry struggles to maintain a local supply of milk to meet the consumers' fluid milk needs. Since 1990 to 2004, milk production decreased from 16.2 billions pounds to 11.7 billion pounds, a 28% decrease, while in that same period US milk production grew over 15% to 170.8 billion pounds annually. Alabama, Arkansas, and Louisiana, which are part of the Southeast Order, cannot produce enough milk to supply even 50% of the consumers' Class I needs.

Florida's population from 1990 to 2000 grew almost 24% according the US Census Bureau. With the projected increase in Florida's population in the year 2030 at 80% growth from 2000, it will be very difficult for local milk production to keep up with consumer consumption of fluid milk. Georgia is expecting a growth in population of 47% from year 2000 to 2030. In fact the Southeast region and Florida have been one of the fastest growing areas in population in the US. Attached is Exhibit 'B' – copy of the US Census Bureau's Interim Projections: Ranking of Census 2000 and Projected 2030 State Population and Change: 2000 to 2030.

It is vital to the Southeast dairy industry to keep dairy producers income levels high enough to sustain and grow local milk production to supply the growing local consumer base. As noted in the USDA/AMS website under Federal Milk Marketing Orders, on the benefits of the milk marketing order program is "*Assures consumers of an adequate supply of milk to meet their needs throughout the year and help prevent wild fluctuations in price through periods of heavy and light milk production.*" SMI believes that having a strong base of local production is critical in assuring the consumers of an adequate supply. This base of local milk production will allow consumers to have a supply available in cases of extreme emergencies. These extreme emergencies consist of hurricanes and pandemics. Florida and SMI experienced the four hurricanes of 2004 and experienced difficulties in getting import milk into the state for several days after the hurricanes. Hurricane Katrina washed out major interstate roads and disrupted fuel supplies for trucks with shortages and high prices, making it difficult to move any product long distances. Local state governments have stated when the Avian Bird Flu does break out in US, movement of commercial vehicles between regions can and will be halted. The World Health Organization and numerous branches of the US Government have stated that a pandemic is a matter of when the breakout occurs and not if it occurs. If Class I prices are lowered because of make allowances and local production continues to decrease, consumers in the Southeast will not have adequate supplies of milk available, especially in emergency situations.

The most common response from dairy industry analysts, as a way to offset the lowering of Class prices because of adjusting make allowances is to raise over order premiums. The Florida and Southeast Federal Orders do maintain a reasonable level of over order premiums. Currently, over order premiums are at relatively high level. Processors may push back on premiums if higher levels are sought. Therefore any loss in the Class I price will cause lost income for producers.

Producers in the Upper Midwest, who are shipping their milk to Class III and IV plants, have incurred the price reductions that would be associated with adjusting the make allowances. In comparing the Minnesota and Wisconsin mail box prices to Upper Midwest Federal Order statistical uniform prices for 2003, 2004, and 2005, producers in this order lost about $.70/cwt.

	MN & WI Mail Box	Upper Midwest Blend Price	Difference
2003	$12.65	$10.93	$1.72
2004	$16.43	$14.75	$1.68
2005	$15.24	$14.28	$0.96

Source: Dairy Market News and Federal Order Statistical Information

These producers have already carried the burden of the increased costs in converting milk into butter, powder and cheese. So changes in the make allowances will not significantly impact their pay prices. The only producers who will take the brunt of the changing make allowances, will be the producers who service the Class I markets.

SMI and its member/owners thank you for the opportunity to submit this proposal.

Sincerely,

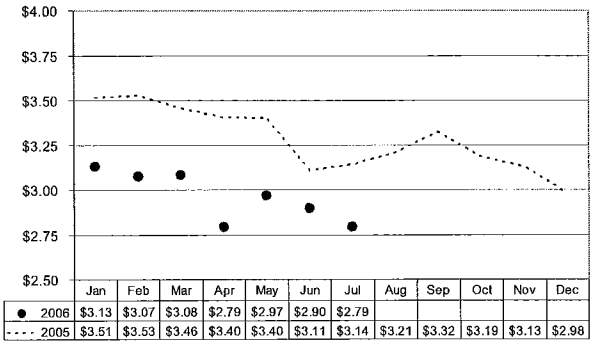
Thomas Pittman
Director of Milk Accounting & Economic Analysis

R E T A I L P R I C E D A T A

BUTTER ($/lb)

Month	AVERAGE RETAIL PRICE			RETAIL/CME SPREAD		
	2005	*2006*	*Change*	*2005*	*2006*	*Change*
Jan	$ 3.51	$ 3.13	-11%	223%	234%	5%
Feb	$ 3.53	$ 3.07	-13%	218%	258%	18%
Mar	$ 3.46	$ 3.08	-11%	223%	264%	19%
Apr	$ 3.40	$ 2.79	-18%	228%	240%	5%
May	$ 3.40	$ 2.97	-13%	242%	252%	4%
Jun	$ 3.11	$ 2.90	-7%	203%	249%	23%
Jul	$ 3.14	$ 2.79	-11%	194%	240%	24%
Aug	$ 3.21			190%		
Sep	$ 3.32			195%		
Oct	$ 3.19			197%		
Nov	$ 3.13			219%		
Dec	$ 2.98			220%		
Average	$ 3.28	$ 2.96	-12%	213%	248%	14%

Retail Butter

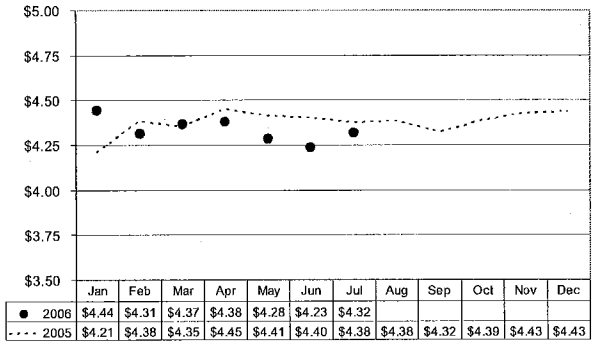


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	$3.13	$3.07	$3.08	$2.79	$2.97	$2.90	$2.79					
2005	$3.51	$3.53	$3.46	$3.40	$3.40	$3.11	$3.14	$3.21	$3.32	$3.19	$3.13	$2.98

NATURAL CHEDDAR CHEESE ($/lb)

Month	AVERAGE RETAIL PRICE			RETAIL/CME SPREAD		
	2005	*2005*	*Change*	*2005*	*2005*	*Change*
Jan	$ 4.21	$ 4.44	6%	259%	333%	29%
Feb	$ 4.38	$ 4.31	-2%	294%	360%	23%
Mar	$ 4.35	$ 4.37	0%	284%	375%	32%
Apr	$ 4.45	$ 4.38	-2%	289%	376%	30%
May	$ 4.41	$ 4.28	-3%	299%	361%	21%
Jun	$ 4.40	$ 4.23	-4%	292%	355%	22%
Jul	$ 4.38	$ 4.32	-1%	291%	371%	28%
Aug	$ 4.38			308%		
Sep	$ 4.32			276%		
Oct	$ 4.39			303%		
Nov	$ 4.43			322%		
Dec	$ 4.43			312%		
Average	$ 4.38	$ 4.33	-1%	294%	362%	26%

Retail Natural Cheddar Cheese

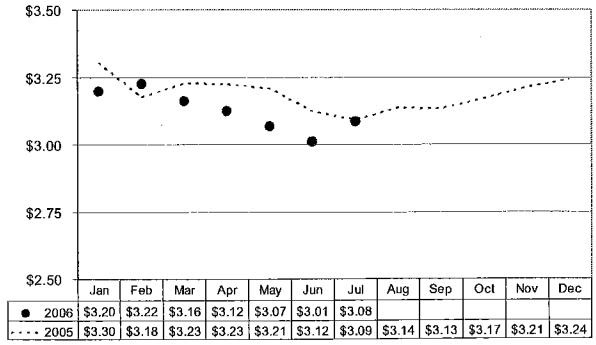


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	$4.44	$4.31	$4.37	$4.38	$4.28	$4.23	$4.32					
2005	$4.21	$4.38	$4.35	$4.45	$4.41	$4.40	$4.38	$4.38	$4.32	$4.39	$4.43	$4.43

WHOLE MILK (gallon)

Month	AVERAGE RETAIL PRICE			RETAIL/MOVER SPREAD		
	2005	*2006*	*Change*	*2005*	*2006*	*Change*
Jan	$ 3.30	$ 3.20	-3%	230%	277%	20%
Feb	$ 3.18	$ 3.22	2%	267%	280%	5%
Mar	$ 3.23	$ 3.16	-2%	243%	294%	21%
Apr	$ 3.23	$ 3.12	-3%	265%	323%	22%
May	$ 3.21	$ 3.07	-4%	251%	324%	29%
Jun	$ 3.12	$ 3.01	-4%	266%	325%	22%
Jul	$ 3.09	$ 3.08	0%	258%	315%	22%
Aug	$ 3.14			252%		
Sep	$ 3.13			265%		
Oct	$ 3.17			258%		
Nov	$ 3.21			256%		
Dec	$ 3.24			277%		
Average	$ 3.19	$ 3.12	-2%	257%	305%	20%

Retail Whole Milk



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	$3.20	$3.22	$3.16	$3.12	$3.07	$3.01	$3.08					
2005	$3.30	$3.18	$3.23	$3.23	$3.21	$3.12	$3.09	$3.14	$3.13	$3.17	$3.21	$3.24

Bureau of Labor Statistics Data

Exhibit 'A'

Table 1: Interim Projections: Ranking of Census 2000 and Projected 2030 State Population and Change: 2000 to 2030

Census 2000 State	2000 Census Population	2000 Census Rank	2030 projections State	2030 Projections Population	2030 Projections Rank	Change: 2000 to 2030 State	Change: 2000 to 2030 Number	Change: 2000 to 2030 Percent	Change: 2000 to 2030 Rank in percent change
United States	**281,421,906**	(x)	**United States**	**363,584,435**	(x)	**United States**	**82,162,529**	**29.2**	(x)
California	33,871,648	1	California	46,444,861	1	.Nevada	2,283,845	114.3	1
Texas	20,851,820	2	Texas	33,317,744	2	.Arizona	5,581,765	108.8	2
New York	18,976,457	3	Florida	28,685,769	3	.Florida	12,703,391	79.5	3
Florida	15,982,378	4	New York	19,477,429	4	.Texas	12,465,924	59.8	4
Illinois	12,419,293	5	Illinois	13,432,892	5	.Utah	1,252,198	56.1	5
Pennsylvania	12,281,054	6	Pennsylvania	12,768,184	6	.Idaho	675,671	52.2	6
Ohio	11,353,140	7	North Carolina	12,227,739	7	.North Carolina	4,178,426	51.9	7
Michigan	9,938,444	8	Georgia	12,017,838	8	.Georgia	3,831,385	46.8	8
New Jersey	8,414,350	9	Ohio	11,550,528	9	.Washington	2,730,680	46.3	9
Georgia	8,186,453	10	Arizona	10,712,397	10	.Oregon	1,412,519	41.3	10
North Carolina	8,049,313	11	Michigan	10,694,172	11	.Virginia	2,746,504	38.8	11
Virginia	7,078,515	12	Virginia	9,825,019	12	.Alaska	240,742	38.4	12
Massachusetts	6,349,097	13	New Jersey	9,802,440	13	.California	12,573,213	37.1	13
Indiana	6,080,485	14	Washington	8,624,801	14	.Colorado	1,491,096	34.7	14
Washington	5,894,121	15	Tennessee	7,380,634	15	.New Hampshire	410,685	33.2	15
Tennessee	5,689,283	16	Maryland	7,022,251	16	.Maryland	1,725,765	32.6	16
Missouri	5,595,211	17	Massachusetts	7,012,009	17	.Tennessee	1,691,351	29.7	17
Wisconsin	5,363,675	18	Indiana	6,810,108	18	.Delaware	229,058	29.2	18
Maryland	5,296,486	19	Missouri	6,430,173	19	.South Carolina	1,136,557	28.3	19
Arizona	5,130,632	20	Minnesota	6,306,130	20	.Minnesota	1,386,651	28.2	20
Minnesota	4,919,479	21	Wisconsin	6,150,764	21	.Arkansas	566,808	21.2	21
Louisiana	4,468,976	22	Colorado	5,792,357	22	.Hawaii	254,509	21.0	22
Alabama	4,447,100	23	South Carolina	5,148,569	23	.Vermont	103,040	16.9	23
Colorado	4,301,261	24	Alabama	4,874,243	24	.New Jersey	1,388,090	16.5	24
Kentucky	4,041,769	25	Oregon	4,833,918	25	.Montana	142,703	15.8	25
South Carolina	4,012,012	26	Louisiana	4,802,633	26	.New Mexico	280,662	15.4	26
Oklahoma	3,450,654	27	Kentucky	4,554,998	27	.Missouri	834,962	14.9	27
Oregon	3,421,399	28	Nevada	4,282,102	28	.Wisconsin	787,089	14.7	28
Connecticut	3,405,565	29	Oklahoma	3,913,251	29	.Oklahoma	462,597	13.4	29
Iowa	2,926,324	30	Connecticut	3,688,630	30	.Kentucky	513,229	12.7	30
Mississippi	2,844,658	31	Utah	3,485,367	31	.Indiana	729,623	12.0	31
Kansas	2,688,418	32	Arkansas	3,240,208	32	.Maine	136,174	10.7	32
Arkansas	2,673,400	33	Mississippi	3,092,410	33	.Massachusetts	662,912	10.4	33
Utah	2,233,169	34	Iowa	2,955,172	34	.Rhode Island	104,622	10.0	34
Nevada	1,998,257	35	Kansas	2,940,084	35	.Alabama	427,143	9.6	35
New Mexico	1,819,046	36	New Mexico	2,099,708	36	.Kansas	251,666	9.4	36
West Virginia	1,808,344	37	Idaho	1,969,624	37	.Mississippi	247,752	8.7	37
Nebraska	1,711,263	38	Nebraska	1,820,247	38	.Connecticut	283,065	8.3	38
Idaho	1,293,953	39	West Virginia	1,719,959	39	.Illinois	1,013,599	8.2	39
Maine	1,274,923	40	New Hampshire	1,646,471	40	.Michigan	755,728	7.6	40
New Hampshire	1,235,786	41	Hawaii	1,466,046	41	.Louisiana	333,657	7.5	41
Hawaii	1,211,537	42	Maine	1,411,097	42	.Nebraska	108,984	6.4	42
Rhode Island	1,048,319	43	Rhode Island	1,152,941	43	.South Dakota	45,618	6.0	43
Montana	902,195	44	Montana	1,044,898	44	.Wyoming	29,197	5.9	44
Delaware	783,600	45	Delaware	1,012,658	45	.Pennsylvania	487,130	4.0	45
South Dakota	754,844	46	Alaska	867,674	46	.New York	500,972	2.6	46
North Dakota	642,200	47	South Dakota	800,462	47	.Ohio	197,388	1.7	47
Alaska	626,932	48	Vermont	711,867	48	.Iowa	28,848	1.0	48
Vermont	608,827	49	North Dakota	606,566	49	.West Virginia	-88,385	-4.9	49
District of Columbia	572,059	50	Wyoming	522,979	50	.North Dakota	-35,634	-5.5	50
Wyoming	493,782	51	District of Colum	433,414	51	.District of Columbia	-138,645	-24.2	51

U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.
Internet Release Date: April 21, 2005

Exhibit 'B'