

Testimony

**Regarding Proposals to Amend
Class III and IV Price Formulas in all Federal
Milk Marketing Orders**

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Held by: USDA/Agricultural Marketing Service/Dairy Division

Testimony Presented at USDA Agricultural Marketing Service Hearing
Concerning Class III and IV Make Allowances
By Gerald Carlin, RR 2 Box 203, Meshoppen, PA 18630
Alexandria, Virginia
January 25, 2006

Thank you, your honor, for the opportunity to speak today. My name is Gerald Carlin. My wife, children, and I own and operate a 60 cow dairy farm in Susquehanna County, Pennsylvania.

The outcome of this hearing will have a direct impact on my business and on every dairy farm in the Federal Orders. My farm is already struggling to make ends meet. Like the processors, I have increased health insurance costs as well as increased fuel and energy costs. In addition, fertilizer and steel costs have sky rocketed. Also there have been increases in property taxes, farm insurance, vet costs, animal medicines, and more.

In spite of added cost, farm milk prices, averaged out over the past 25 years, have remained basically flat. It is, therefore, deeply disturbing that Agri-Mark has petitioned USDA for higher make allowances, which would reduce milk prices to dairy farmers who are already struggling.

According to the analysis of Dr. Kenneth Bailey, Penn State University, the expected increases in the make allowances could reduce farm gate prices by \$0.25-\$0.46 per hundred weight. On my relatively small dairy farm, this would mean a reduction of \$ 3,000 to \$ 5,500 in milk income per year. This certainly makes me an interested party. The average dairy farm in the United States could lose \$ 6,500 to \$12,000 a year which makes every dairy farmer in the Federal Orders an interested party, and every one of them should have been notified about this hearing.

Any increase in processor cost should be passed on to their customers. Retail dairy product prices are at 183% of the 1982-84 base line according to Dairy Market News. There is room in these prices to absorb added processor costs. To put these costs on the backs of dairy farmers who have no way to pass them on is immoral and deeply offensive.

Let me say that I am not opposed to dairy processors making a fair profit. However, I will note that Agri-Mark and Upstate Farms Cooperative, Inc. Plaintiffs in the St. Albans Cooperative Creamery, Inc., et al. Plaintiffs verses Dan Glickman,

Secretary of Agriculture, Defendant case, withdrew their case after USDA adopted Option 1A.

US District Judge William Sessions III had cited Dan Glickman for failure to consider dairy farmers' cost of production in the milk pricing formula. Judge Sessions made clear in his "Opinion and Order" that ". . . this court looks to the direct language of the statute to determine the sufficiency of the Secretary's consideration, which makes no mention of indirect consideration being adequate in meeting the requirements of 608 c (18). The record shows no direct consideration of regional costs in feed, feed availability, or other region specific economic factors." Judge Sessions also stated that ". . . the court finds the Secretary's Final Order and Decision violates Congress' mandate under the 1937 Agricultural Marketing Agreement Act (AMAA) . . ."

The fact that the co-ops including Agri-Mark and Upstate Farms dropped this case without resolution of the cost of production issue strongly indicated to me their lack of concern for their membership's getting paid cost of production. It also shows their disregard for the Capper-Volstead Act, which established a co-op's right and responsibility to fight for fair farm milk prices for their membership.

In December 2000, USDA released the Tentative Decision on Proposed Amendments for Class III and IV Pricing. Once again, USDA ignored the mandates of 7 U.S.C. 608 c (18) maintaining that the Class III and IV prices ". . . are such prices as will reflect the aforesaid factors. . ." [General Findings (b)]. This is nonsense. Of course, the co-ops block voted the referendum through. In light of these past actions, I think that it is obvious where the petitioners' real interests are. It goes against economic fairness to pass increased operating costs backward to the supplier. All through our economy, increased costs are passed on to the customers. Passing costs on seemed to work before Order Reform and should work again. Passing more costs backward will cause undo economic hardship to the very farmers on whom processors rely and make fresh local milk even scarcer.

Furthermore, the current system affords additional benefit to processors who use imported dairy ingredients to increase yield, since they are paid a make allowance on end product. It seems that this also would render USDA milk production figures exaggerated and unreliable.

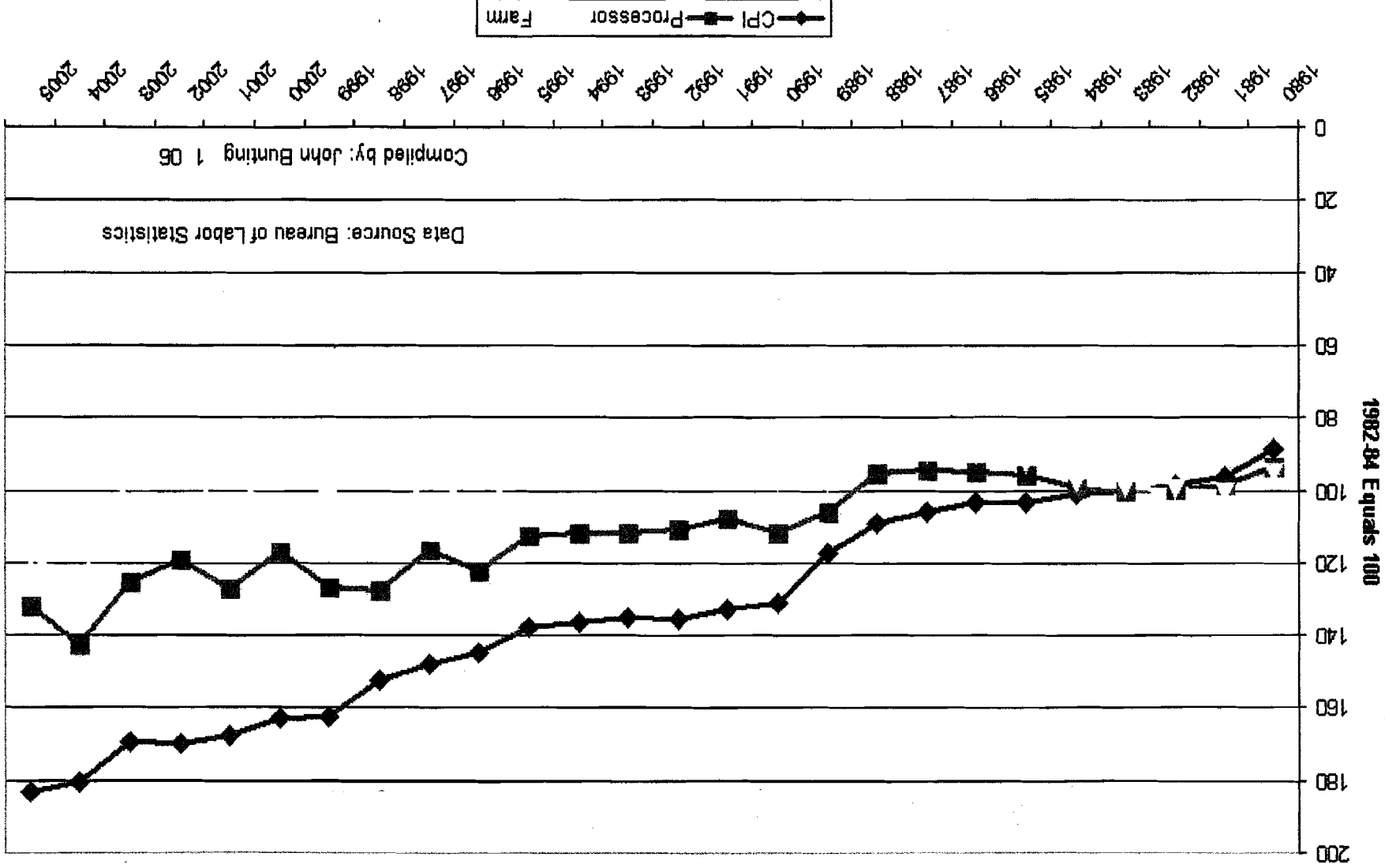
Before any action is taken on make allowances, USDA must abide by 7 U.S.C.

608 c (18) " . . . to assure a level of income adequate to maintain productive capacity sufficient to meet anticipated future needs, and be in the public interest." A drive around rural America certainly reveals that the current economic plan for agriculture has brought once proud and beautiful farms into disrepair and is causing farm kids to turn their backs on farming. Dairy farmers don't need gimmicks. We need fair prices. USDA already has the data on total economic cost of production for dairy farms. Now they need to act. Cost of production for dairy farmers is not just a good idea, it is the law.

Appendix

1. **USDA Economic Analysis grossly underestimated price impact on farmers.**
2. **This hearing held with too little notice and too few notified.**
3. **Increasing make allowances on Class III and IV also reduces Class I and Class II prices. Class I and II prices should have never been impacted by make allowances for cheese, butter, and non-fat dry milk.**
4. **The enclosed graph shows that the processors income per unit has still increased at a higher rate than farm milk prices.**

Cheese Related Indices



7 USC 608 (c)

18) **Milk Prices**

The Secretary of Agriculture, prior to prescribing any term in any marketing agreement or order, or amendment thereto, relating to **milk** or its **products**, if such term is to fix minimum **prices** to be paid to **producers** or associations of **producers**, or prior to modifying the **price** fixed in any such term, shall ascertain the parity **prices** of such commodities. The **prices** which it is declared to be the policy of Congress to establish in section 602 **title** shall, for the purposes of such agreement, order or amendment, be adjusted to reflect the **price** of feeds, the available **supplies** of feeds, and other economic conditions which affect market **supply** and demand for **milk** or its **products** in the marketing area to which the contemplated marketing agreement, order, or amendment relates. Whenever the Secretary finds, upon the basis of the evidence adduced at the hearing required by section 608b of this **title** or this section, as the case may be, that the parity **prices** of such **commodities** are not reasonable in view of the **price** of feeds, the available **supplies** of feeds, and other economic conditions which affect market **supply** and demand for **milk** and its **products** in the marketing area to which the contemplated agreement, order, or amendment relates, he shall fix such **prices** as he finds will reflect such factors, insure a sufficient **quantity** of pure and wholesome **milk** to meet current needs and further to assure a level of farm income adequate to **maintain productive** capacity sufficient to meet anticipated future needs, and be in the public interest. Thereafter, as the Secretary finds necessary on account of changed circumstances, he shall, after due notice and opportunity for hearing, make adjustments in such prices.

608c(7)

(7) Terms common to all orders

In the case of agricultural commodities and the products thereof specified in subsection (2) of shall contain one or more of the following terms and conditions:

(A)

Prohibiting unfair methods of competition and unfair trade practices in the handling thereof.

CONSUMER PRICE INDEX (CPI-U) AND AVERAGE RETAIL PRICES FOR SELECTED PRODUCTS, U.S. CITY AVERAGE 1/

Month and Year	All Food		Dairy Products		Fresh Whole Milk		Cheese		Butter		Meat, Poultry, Fish and Eggs	
	CPI 2/	Pct. Chg.3/	CPI 2/	Pct. Chg.3/	CPI 2/	Pct. Chg.3/	CPI 2/	Pct. Chg.3/	CPI 2/	Pct. Chg.3/	CPI 2/	Pct. Chg.3/
SEPT. 2005	191.4	2.5	181.8	0.1	183.7	-0.9	182.4	-0.3	187.7	-3.4	185.2	1.0
OCT. 2005	192.1	2.2	182.6	0.3	184.3	0.5	182.4	-0.5	184.4	-5.2	184.6	0.9
NOV. 2005	192.4	2.2	183.5	1.4	188.1	2.8	184.8	0.5	177.1	-7.0	185.8	1.9
U.S. City Average Retail Prices												
Month	Whole Milk 4/		Butter 5/		Process Cheese 6/		Natural Cheese 7/		Ice Cream 8/			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004		
Dollars												
SEPTEMBER	3.133	3.149	3.321	3.624	3.948	4.030	4.321	4.459	3.784	3.968		
OCTOBER	3.171	3.161	3.186	3.668	3.903	4.032	4.385	4.311	3.705	3.790		
NOVEMBER	3.211	3.219	3.130	3.605	3.945	3.988	4.429	4.164	3.514	3.777		

1/ CPI Detailed Report, "Consumer Prices: Energy and Food," BLS, U.S. Department of Labor. According to BLS, average prices are best used to measure the price level in a particular month. To measure price change over time, the CPI is more appropriate. 2/ The standard reference base period for these indexes is 1982-1984=100. 3/ Percent change over previous year. 4/ Per gallon. 5/ Per pound. Grade AA, salted, stick butter. 6/ Per pound, any size and type of package. 7/ Per pound, cheddar cheese in any size and type of package and variety (sharp, mild, smoked, etc.). 8/ Per 1/2 gallon, prepackaged regular.

COMMERCIAL DISAPPEARANCE: TOTAL MILK AND SELECTED DAIRY PRODUCTS AUGUST-OCTOBER AND ANNUAL 2004/2005 1/

Item	Aug.-Oct. 2004	Percent change 2/	Aug.-Oct. 2005	Percent change 2/	Jan.-Oct. 2004	Percent change 2/	Jan.-Oct. 2005	Percent change 2/
	Million Pounds							
MILK								
Production	41,904	1.2	43,618	4.1	142,897	-0.2	147,476	3.5
Marketings	41,623	1.2	43,339	4.1	141,964	-0.2	146,556	3.6
Beginning Commercial Stocks 3/	11,951	-8.9	11,269	-5.7	8,333	-15.8	7,154	-14.1
Imports 3/	1,042	-13.8	1,054	1.2	4,376	7.0	3,834	-12.4
Total Supply 4/	54,616	-1.5	55,662	1.9	154,673	-1.0	157,544	2.2
Ending Commercial Stocks 3/	8,995	-8.1	8,854	-1.6	8,995	-8.1	8,854	-1.6
Net Removals 3/	13	-90.8	-4	-130.8	-62	-105.3	-39	-37.1
Commercial Disappearance 4/	45,608	0.2	46,812	2.6	145,740	0.3	148,729	2.4
SELECTED PRODUCTS 5/								
Butter	381.0	7.3	383.9	0.8	1,066.2	2.9	1,073.1	1.0
American Cheese	1,001.5	3.8	988.2	-1.3	3,126.2	2.2	3,148.3	1.0
Other Cheese	1,399.7	1.2	1,450.5	3.6	4,553.7	3.1	4,716.4	3.9
Nonfat Dry Milk	314.9	25.2	279.6	-11.2	1,107.8	46.9	1,087.4	-1.6
Fluid Milk Products 6/	13,689.0	-1.6	13,974.9	2.1	45,144.8	-1.5	45,177.0	0.4

1/ Commercial disappearance includes civilian and military purchases of milk and dairy products for domestic and foreign use, but excludes farm household use and USDA donations of dairy products. Disappearance is a residual figure and therefore can be affected by any inaccuracies in estimating milk production, on-farm use, stocks, and imports. 2/ From year earlier on a daily average basis. 3/ Milk-equivalent, milkfat basis. 4/ Totals may not add because of rounding. 5/ Commercial disappearance in product pounds. 6/ Sales. Estimate based on actual sales in Federal milk order marketing areas and California. These sales figures have not been adjusted for calendar composition. SOURCE: Economic Research Service, USDA. Fluid milk products - Agricultural Marketing Service, USDA.