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JERRY MADISON

2001 JAN -9 P House of Representatives

EX OFFICIO MEMBER:
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STAFF DIRECTOR

RECEIVED

December 8, 2000

VICE CHAIR FOR
RESEARCH OPERATIONS

Hon. Dan Glickman, Secretary
U.S. Department of Agriculture
14th Street & Independence Avenue, S.W.
Washington, D.C. 20250

35-4167587
ams

Dear Secretary Glickman:

We are writing to you to express our disappointment with USDA's December 1 announcement of a tentative final decision on Class III (cheese) and Class IV (butter and dry milk products) formulas for all Federal Milk Orders, especially in light of the recent collapse in Class III prices.

As you know, on the same day that USDA announced the tentative final decision, it also announced a further \$1.45 cut in Class III prices for November. That brings Class III prices to a 24-year low of \$8.57 per hundredweight. However, while the Class III price is falling to record lows the Class IV price has been rising, most recently by \$1.19 to \$13.

This appears to be due in large part to the fact that under the new Class I milk pricing formula butter has become the price mover for Class I prices with a *de facto* decoupling of Class I and Class III prices. Currently, the Class I price is determined by the Class IV price, which reflects just 10% of the dairy market. Also, because Class IV is a relatively thin market, it is subject to manipulation. The result is that regional farm milk price disparities have increased dramatically. That means that dairy farmers in the Upper Midwest, who are already receiving lower prices for their milk due to the operation of Class I differentials and the Northeast Dairy Compact, are now being further discriminated against because they produce milk that goes primarily into cheesemaking.

The dairy pricing system is clearly out of whack. It is sending contradictory signals to farmers. It is telling farmers who live in regions of high Class I utilization, in places like the Northeast, the Southeast and the Southwest that supply needs to increase to meet demand. At the same time it is telling farmers in the Upper Midwest that milk is in surplus and they should produce less. The result is that the additional supplies of milk being produced in regions outside the Upper Midwest are flowing into Midwestern cheese plants, further depressing the price that farmers in the Upper Midwest receive.

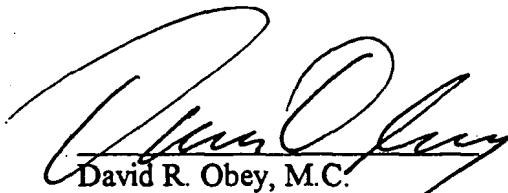
This inequity cannot be allowed to continue. Milk and dairy products move nationally throughout the United States and there is simply no justification for the current inequities.

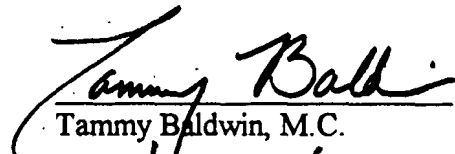
However, according to analyses of USDA's tentative final decision on Class III and Class IV prices, your proposed changes will do little or nothing to reduce these pricing inequities. What we need, as has been proposed by the Midwest Dairy Coalition, is to replace the current Class I price mover with a weighted average of the advanced Class III and Class IV prices based upon the utilization of manufactured milk in Class III and Class IV during the previous year. A broader measure of the market than we have currently is called for and that is what a weighted average of Class III/Class IV would provide.

We understand that you have indicated that you do not have the authority to make changes in the Class I price mover. We would urge you to reconsider in light of rulings by the Administrative Law Judge, first accepting testimony by Family Dairies and the Midwest Dairy Coalition on this during hearing on proposed changes to the Class III/ Class IV pricing formulas and, second, that the Secretary does indeed have such authority.

Under the price support program the Secretary is required to maintain support prices at a minimum of \$9.90. When the Class III price is standing at \$8.57, dairy farmers whose milk goes into cheese are not getting any benefit from the price support program. By making the changes we have suggested in the formula for the Class I price mover, you would be taking steps to correct that and restore some measure of equity to the dairy pricing system.

Sincerely,


David R. Obey, M.C.


Tammy Baldwin, M.C.


Ron Kind, M.C.


Senator Herb Kohl


Senator Russ Feingold



United States
Department of
Agriculture

Agricultural
Marketing
Service

P.O. Box 96456
Washington, DC
20090-6456

JAN 30 2001

The Honorable David R. Obey
U.S. House of Representatives
2462 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Obey:

Thank you for your comments on the tentative final decision co-signed by you and your colleagues. They will be filed with the Hearing Clerk and considered with other comments received in response to the tentative final decision issued November 29 in the process of formulating a final decision on amending the Class III and Class IV pricing formulas. An interim final rule was issued on December 21, after producers approved the amended orders. The interim amended orders became effective for milk marketed on or after January 1, 2001.

Because we are currently engaged in rulemaking, and will continue to be so engaged until issuance of a final decision following receipt of the comments on the tentative final decision, we are not able to comment further on your remarks regarding Class III and Class IV prices or on the Class I price mover. However, please know that we, too, are concerned about the low prices being faced by our dairy farmers.

Thank you again for sharing your views. An identical letter will be sent to your colleagues.

Sincerely,

/s/ KENNETH C. CLAYTON

Kenneth C. Clayton
Acting Administrator

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USDA
OALJ/HCO

Identical letter sent to attached list:

Honorable Tammy Baldwin
Honorable Ron Kind
Honorable Herb Kohl
Honorable Russ Feingold
Honorable Larry E. Craig

AMS:DP:OFB:CBrenner:csw:jmm:720-2357:12/22/00:01/26/01

FINAL:1/22/01 -1/29/01-My docs:obey-ltr.wpd

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35-4166937 (controlled correspondence request numbers combined into one response*)