Dairylea
Cooperative Inc.

January 25, 2002

Clifford M. Carman, Chief
Order Formulation Branch
USDA/AMS/Dairy Programs
Stop 0231, Room 2971-S
14th & Independence Avenue, SW
Washington, DC 20250-0231

Dear Mr. Carman:

Dairylea Cooperative Inc. supports the National Milk Producers Federation's comments relative to your recommended decision on the Class III and IV pricing formulas, with two additional suggestions. Dairylea has also joined the consolidated comments filed on behalf of Select Milk Producers, Dairy Farmers of America, National All-Jersey and others in support of the protein price formula in the recommended decision.

Dairylea is appreciative of your efforts culminating in the refinement and improvement of the Class III and IV pricing formulas. With respect to these pricing issues, we recognize that the dairy industry has been operating in an environment clouded with uncertainty since Federal Order Reform rules were first implemented. It is our hope that, in the absence of an over-riding industry consensus to the contrary, these formulas be implemented and remain in place for some time so that changes to these pricing formulations no longer generate industry wide pricing uncertainty.

That said, we recognize the importance of Federal Order Class III and IV prices being appropriately aligned with similar prices in California's state order and in unregulated areas. Tremendous growth in milk production and cheese processing has occurred under California's state order and in Idaho – where a large amount of milk is not regulated under any milk marketing order. It is important that manufacturers buying Federal order milk pay Class prices that are competitive with similar manufacturers in California and Idaho. Failure to keep these prices competitive would put at risk manufacturing operations buying the more expensive milk.

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In 2001, the average Federal Order Class III price exceeded the average California State Order 4b price by $.49. Although these differences were virtually non-existent in 1999 and 2000, we do raise a concern that too much Federal order Class III price appreciation, without similar price appreciation in California's state order, could be detrimental to our manufacturing industry in the Northeast. If the Federal order Class III price exceeds the California price by too much and for too long, Northeast manufacturers could lose sales to lower priced western product.

Certainly the answer to this conundrum is to have the Federal order and state order manufacturing formulas be one in the same. We believe that this is the appropriate resolution to this issue. It is also our belief that the surviving formula should be the one that brings all manufacturers up to the highest common denominator - that under Federal Orders – as opposed to the California formula, the lowest common denominator.

However, in the absence of this solution, we ask that you be mindful of the price differences between Federal and State order manufacturing prices and implement Federal order formulas that keep all parties competitive. Unfortunately, I don't have a good feel for a Federal/California Class III/4b price difference that can be sustainable here in the Northeast.

As to our second qualification, Dairylea would prefer that the other solids price be snubbed so that it cannot be negative. We recognize that this would distort Class III prices from time to time. However, that would be more desirable to us than having a negative other solids price that deducts money from farmers' milk checks.

The implementation of multiple component pricing under Federal Orders was done to encourage farmers to produce the types of components in milk that is demanded by the market place. It is impractical for a dairy farmer to alter component production on a monthly basis to correspond with higher or lower component values. It is impossible for a dairy farmer to stop producing a particular type of component if such component returns a negative value. Since dairy farmers will be unable to alter their milk production to avoid the negative component price, it seems unfair to subject them to such a price.

Although Dairylea would prefer snubbing the other solids Class III price, we recognize that manufacturers may object to this. If you decide that snubbing the Class III other solids price is inappropriate, we would be supportive of snubbing the producer other solids price. This process can maintain revenue neutrality to the pool if a portion of the money otherwise used in calculating the producer price differential were used to bring the producer other solids price from a negative to a zero value.

Again, we appreciate the work that the AMS Dairy Programs staff has put in on this issue. Thank you for the opportunity to comment on this decision, as well.

Dairylea Cooperative Inc. is a Syracuse, NY based agriculture marketing and service organization owned by dairy farmers throughout the Northeast and Mid-Atlantic regions. Through Dairy Marketing Services, LLC, our joint milk marketing venture with Dairy Farmers of America, Dairylea participates in the administration of a milk marketing business that pools close to 11 billion pounds of milk for more than 7,000 dairy farmers under 3 Federal orders.

Sincerely,

Edward W. Gallagher

Edward W. Gallagher
Vice President, Planning and
Regulatory Policy