

Land O'Lakes, Inc.

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Land O'Lakes Dairy Foods

February 25, 2000

Deputy Administrator, Dairy Programs
Agricultural Marketing Services
U.S. Department of Agriculture
Room 2968 South Building
P.O. Box 96456
Washington, DC 2009--6456

Dear Mr. McKee:

Land O'Lakes proposes the following modification to Section 1000.50 of the General Provisions of Federal Milk Marketing Orders to be considered at the upcoming hearing to reconsider Class III and Class IV pricing formulas.

Add a new paragraph following paragraph 1000.50 (k) to read as follows.

“(1) Class IV butterfat price. The Class IV butterfat price per pound shall be the butterfat price less \$.06.”

Reumber paragraphs 1000.50 (l) through (q) as paragraphs (m) through (r).

Rationale to support the proposal

The Class IV butterfat price was increased \$.06 compared to the Class III butterfat price under the former orders. This increased butterfat costs to fluid milk processors who sell Class IV butterfat, but there is no increase in the butterfat price received from cream buyers. Therefore, there has been an unintended increase in the costs of milk for fluid use to fluid processors.

More than 70 percent of U.S. butter is produced from cream separated from fluid milk products.

There are additional costs in handling surplus cream for Class IV use than would be the case for Class III milk.

Class III butterfat is received in the form of fluid milk, almost always direct from the farm.

Class IV butterfat incurs extra processing and transportation costs compared to Class III butterfat. It is pasteurized twice and is pumped into and out of a storage tank at both the plant of origin and at the receiving plant. There is investment in two storage tanks, and both tanks must be washed and sanitized. In addition, a significant amount of transportation cost is incurred in moving the cream from the plant of origin to the destination plant. Finally, there is additional recordkeeping and administrative cost in executing the transaction between buyer and seller.

These costs justify a lower butterfat price for butterfat used to produce Class IV products than for butterfat used to produce Class III products.

Sincerely,

A handwritten signature in cursive script that reads 'Paul G. Christ'.

Paul G. Christ
Vice President
Risk Management/Economic Analysis

Exhibit _____