

March 10, 2000

Re: Data needed on cheddar cheese make allowance for upcoming USDA hearing on Class III and IV prices.

We need your help for a very important project! Just complete the enclosed survey form and return as directed. It would be most helpful to this effort if you included data for most recent three years, but it is most important that you complete the survey for the most recent year's data. The National Cheese Institute (NCI) needs this data by March 30th. If you have more than one plant which manufactures either cheddar cheese or dry whey, please copy the five-page survey form and complete a copy for each plant. USDA plans to conduct a formal hearing in late April or early May to consider, among other items, the appropriate make allowances for cheese and dry whey to be used in determining federal order minimum prices. For your information, an additional enclosure explains how USDA determined the make allowance which is currently used in the federal order Class III price formula.

Given the debate in Congress last fall, one key area of focus in the upcoming hearing will be the make allowances used in the product price formulas, especially the make allowances for cheese and dry whey used in determining the Class III minimum milk price. The price formula adopted in the final rule included a make allowance for cheese identical to that proposed to USDA by NCI; for dry whey, USDA did not adopt NCI's proposal, and instead adopted the same make allowance for dry whey as that used for nonfat dry milk. In view of the efforts by some to reduce the final rule make allowances, the Legislative and Economic Policy Committee of NCI recommended, and the Board of Directors concurred, that NCI should collect data on cheddar cheese manufacturing costs in anticipation of using a summary of that data in the upcoming federal order hearing.

This data collection process has been designed with "firewalls" in order to assure confidentiality of any individual plant data. NCI's outside legal counsel, Covington and Burling, has contracted with an outside survey research firm, Association Services Group, to receive the survey responses and to summarize the data. A statistical summary only, not individual plant data, will be provided to Covington and Burling, who will then pass the summary data along to IDFA, in order to

provide the maximum protection of the summary data through attorney - client privilege. No individual plant data will be available to anyone other than the survey research company.

According to our information, your plant manufactures either cheddar cheese or dry whey, or both. If this is true, we strongly urge you to help us by agreeing to provide your company's data. The summary of the data collected will have more weight in the hearing as the number of plants participating, and the volume of cheese and dry whey represented, increases.

If you have any questions about the survey form, or the data collection process, please contact Bob Yonkers of IDFA's staff at 202/220-3511. Note that the survey form is not to be returned to IDFA, but rather to Association Services Group, where John Burnham is collecting the data for this survey.

Sincerely,

Robert D. Yonkers
Chief Economist & Policy Analyst

Summary of How the Existing Make Allowances for Cheese and Dry Whey Were Determined

Cheese: During USDA's reform process, two sources of data on cheese make allowances were identified and relied on, both by industry in written comments and by USDA in the final rule.

The first was make allowance data collected and published by the California Department of Food and Agriculture (CDFA), which is part of CDFA's ongoing milk pricing system. This data is based on audited surveys of cheddar cheese plants, and is limited to those producing 40-pound blocks. In its final decision, USDA reported that the CDFA data supported a make allowance of 18.55 cents per pound of cheese. This was based on CDFA's audited survey of 9 cheddar cheese plants with a total processing volume of 375.6 million pounds, for the two-year period from January 1995 through December 1996.

The second source of data was provided by the Rural Cooperative Business Service (RCBS) of USDA. As part of its ongoing technical assistance program to cooperatives, RCBS annually surveys cooperative dairy manufacturing plants about costs of processing. This is not a make allowance study, but rather an effort to provide cooperative dairy plants with benchmark data for costs of manufacturing. This survey is not limited to 40-pound block cheddar cheese, but rather includes all sizes and packaging types (640-pound blocks and 500-pound barrels, as well as 40-pound blocks are included). In its final decision, USDA reported that the RCBS data supported a make allowance of 15.4 cents per pound of cheese. This was based data provided by 4 cooperatives on 6 cheddar cheese plants with a total processing volume of 58.8 million pounds, for calendar year 1996.

Industry comments submitted to USDA during the reform process contained suggestions ranging from using the RCBS study alone to using the CDFA study alone to set the make allowance for cheese in the Class III product price formula. NCI, and others, suggested using an average of the two sources of data, weighted by the volume of cheese processed. In the final rule, this suggestion was the one adopted by USDA, resulting in a make allowance for cheese of 17.02 cents per pound.

Dry Whey: For the make allowance for dry whey, USDA basically concluded that the same make allowance as that used for nonfat dry milk was appropriate for use in federal order minimum pricing. During the reform process, NCI submitted to USDA comments which suggested that the make allowance for nonfat dry milk be 13.7 cents per pound of nonfat dry milk, based on data from CDFA and RCBS. For dry whey, CDFA does not collect and publish data on costs of manufacturing. Therefore, based on RCBS data, NCI proposed that the dry whey make allowance be 17.1 cents. The higher make allowance proposed by NCI for dry whey versus nonfat dry milk was based on industry cost data reflecting the fact that manufacturing dry whey requires removing more liquid (liquid whey averages about 6% solids while skim milk averages closer to 9%) and also requires a crystallization process not used in nonfat dry milk manufacturing. In the final rule, USDA adopted NCI's proposal for the nonfat dry milk make