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Exhibit-NMPF-12

United States Department of Agriculture
Before The Secretary of Agriculture

In re: [Docket No. 23-J-0067; AMS-DA-23-0031]
Milk in the Northeast and Other Marketing Areas

Hearing beginning August 23, 2023

Testimony Presented By:

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I am Peter Vitaliano, Vice President, Economic Policy and Market Research for the National Milk Producers Federation (NMPF). This testimony is presented in support of Proposal 7, one of five proposals submitted by NMPF**.** NMPF is the national trade association that represents dairy farmers and the cooperative marketing associations they own and operate throughout the United States. I have been employed by NMPF for almost 38 years as essentially its Chief Economist, in which capacity I have been responsible for all economic and market analysis that supports the programs of NMPF.

NMPF is the voice of America's dairy farmers. Through its 25 dairy marketing cooperative members, NMPF represents two-thirds of the approximately 28,000 commercial dairy farmers in the United States. NMPF's member cooperatives reflect both the geographic and the product mix diversity of the dairy producer and cooperative sectors in the United States. NMPF's member cooperatives process a majority of the Class I milk pooled under Federal Orders and distributed on routes within the 11 Federal Order marketing areas and include one of the largest fluid dairy ESL manufacturers in the United States. NMPF members have significant Class II, Class III and Class IV manufacturing operations and manufacture a majority of U.S.-produced butter and nonfat dried milk products.

Given the diversity and breadth of its membership, NMPF is the dairy industry organization best able to undertake a comprehensive review of the Federal Order system and to weigh its impacts on both dairy farmers as well as processors and manufacturers. NMPF's five proposals presented at this hearing represent a balanced and integrated program of needed and long overdue updates that are in the best interests of the entire U.S. dairy industry and which appropriately balance the economic interests of dairy farmers and dairy plant operators. NMPF strongly supports the Federal Milk Marketing Order program but also believes that the program requires several regulatory and

technical updates to continue to operate in the best interests of dairy farmers, processors and manufacturers of dairy products and the dairy product consuming public.

The current system of Federal Order minimum class prices, which has been in effect since January 1, 2000, is the hybrid product of Federal Order Reform rulemaking and Congressional action. The dairy product price formulas for determining Federal Order Class III and IV prices implemented in January 2000 replaced the Basic Formula Price (BFP), which used a survey of milk prices, as did the preceding Minnesota-Wisconsin (M-W) price series, as the basic means of price discovery for establishing milk prices to operate the Federal Order program. Discontinuing the BFP represented a major change because it replaced this previous system of direct, survey-based, price discovery with a system that indirectly discovered raw milk prices entirely by calculation from market prices of the products manufactured from that milk. The intricate product price formulas and their constituent coefficients that resulted took on the important function of accurately simulating the market realities of the complex transfer of price discovery from the markets for dairy products to the markets for unprocessed milk used to produce them.

At the same time, the Class I prices that were established by Congress updated the pre-existing Class I differentials by adopting an optional USDA-suggested price surface, which had been generated on the basis of 1990s milk market conditions and extended it coast-to-coast. All of the prices and price formulas of Federal Order Reform were premised upon the costs and realities of milk production and dairy product manufacturing which prevailed at that time.

Those market realities have subsequently changed as the U.S. dairy industry has undergone dynamic structural change since 2000, while the critical Federal Order dairy product price formulas and Class I differentials have, for the most part, remained static. For example, the location of U.S. milk production has shifted westward, manufacturing and transportation costs have increased significantly, and the southeastern states have become progressively more milk deficit. Also, the industry has seen the successful deployment of very large manufacturing plants, and yet many smaller-sized manufacturing plants remain critically important to satisfying the domestic and export demands for the U.S. milk supply. Additionally, the United States currently sells about 18 percent of its milk production as manufactured products in export markets, compared to about 5 percent in 2000.

These realities and others necessitate a pricing formula review that incorporates the Class I mover, Class I differentials, manufacturing cost (make) allowances, and other factors in the Class price formulas. The constituent parts of those formulas, including the products used, the make allowances, and the yield factors in the component formulas, the assumed composition of producer milk, as well as the Class I differentials, have become increasingly outdated, even those few previously updated, to the extent that the effective administration of the Federal Order program has become increasingly difficult.

NMPF has engaged in an almost two year-long comprehensive study of needed updates to the Federal Order pricing formula provisions. NMPF has undertaken this important activity with the essential and dedicated assistance of dozens of marketing experts from the staffs of its member cooperative marketing associations. In a series of over 200 mostly virtual meetings, this team

examined every detail of each of the current pricing formulas of the Federal Order uniform pricing regulations in 7 C.F.R § 1000.50-52. The goal was to develop a comprehensive, integrated, and balanced program of updates to these formulas, to realign them more fully with the structural realities of the current dairy industry and to address the disorderly marketing conditions which the growing misalignment has allowed to develop. This effort included consideration of mechanisms for making further updates in the future as the industry continues to evolve. The comprehensive package which resulted includes seeking additional legislative authority for USDA to conduct mandatory studies of manufacturing costs and product yield factors, seeking a change via ordinary rule-making to the regulations implementing the Dairy Product Mandatory Reporting Program (DPMRP), and five recommendations for amendments to the uniform pricing regulations for all Federal Orders.

The NMPF Board of Directors unanimously approved this package of recommendations, including the five recommendations for proposed amendments to all Federal Orders, which NMPF has submitted as the following proposals:

1. **Update the milk component factors for protein, other solids, and nonfat solids in the Class III and Class IV skim milk price formulas**

3. **Discontinue use of barrel cheese in the protein component price formula**

7. **Increase the make allowances in the component price formulas to the following:**

Butter	**$0.21 per pound**
Nonfat dry milk	**$0.21 per pound**
Cheese	**$0.24 per pound**
Dry Whey	**$0.23 per pound**

13. **Return to the "higher-of" Class I skim milk price mover**

19. **Update the Class I differentials throughout the United States**

Implementation of all five components of NMPF's comprehensive proposal will require amendment of certain provisions of the Federal Order uniform pricing regulations in 7 C.F.R § 1000.50-52, applicable to all Federal milk marketing orders, and 7 C.F.R. §1005.51(b), §1006.51(b), and §1007.51(b). This testimony is in support of Proposal 7, concerning Class III and IV Formula Factors.

Proposal 7: Increase the make allowances in the component price formulas

NMPF requests that the Secretary amend 7 C.F.R. § 1000.50(l), (m), (n), (o), and (q), applicable to all federal milk marketing orders, as specified at the conclusion of this testimony, which

would increase the current make allowances in the Federal Order component price formulas for butterfat, nonfat solids, protein, and other solids.

The make allowances in the component price formulas and current costs of manufacturing the products in those formulas

NMPF proposes increasing the current make allowances in the butterfat, nonfat solids, protein, and other solids component formulas as follows:

Butterfat:	From $0.1715 to $0.2100 per pound of butter,
Nonfat Solids:	From $0.1678 to $0.2100 per pound of nonfat dry milk,
Protein:	From $0.2003 to $0.2400 per pound of cheddar cheese,
Other Solids:	From $0.1991 to $0.2300 per pound of dry whey.

These requested changes are equivalent to an increase of $0.0385 per pound in the butter make allowance, an increase of $0.0422 per pound in the nonfat dry milk make allowance, an increase of $0.0397 per pound in the cheddar cheese make allowance, and an increase of $0.0309 per pound in the dry whey make allowance. NMPF does not contend that these increases fully correct for the increases in butter, nonfat dry milk, cheddar cheese and dry whey manufacturing costs experienced by manufacturers since 2008, when the current make allowances were adopted. Instead, these make allowance increases represent a fair balance between the producer impact of higher make allowances and the processor impact of make allowances that more closely reflect the current cost of manufacturing commodity style butter, nonfat dry milk, cheddar cheese and dry whey. Raising make allowances to levels above those proposed will reduce producer prices to levels that would narrow margins and negatively impact the availability of adequate supplies of milk, and thereby create disorderly marketing. At the same time, the proposed increases in make allowances will likely not ensure that all manufacturing plants will operate profitably since plants vary by location, size, age, depreciation, yield, operating costs, and other factors. Indeed, the Department recognizes that component formula make allowances "will not provide enough of an allowance to assure that every processor, no matter how inefficient or high-cost, will earn a profit."[1] This is because assuring all manufacturers a profit would effectively eliminate the "incentive to make a sufficient quantity of milk available for fluid use, a basic goal of the Federal milk order program."[2]

Disorder caused by the current inadequate make allowances

Under Federal Order Reform, Product Price Formulas (PPF) replaced the previous direct survey of prices paid for manufacturing milk. PPFs moved the process of establishing the basis for Federal Order pricing up the marketing chain one step to survey buying and selling of wholesale, spot, commodity style, dairy products. Those dairy product prices became the foundation, working backward via economic formulas, to determine the minimum price of milk used to make

[1] 65 Fed. Reg. 76,840 (Dec. 7, 2000).
[2] *Id*. at 76,841.

those commodity dairy products. Adjusting their prices by subtracting the non-milk costs of manufacturing these products and applying appropriate yield factors determines an implied value for the components of milk used to produce them. Having accurate and updated plant processing costs, to establish appropriate make allowances and appropriate product yield factors are critical for this indirect method of determining milk prices, which is a principal function of the Federal Order Program[3]. Yet a regular and systematic method of ensuring that these critical PPFs remain accurate and current has heretofore not been established.

The current make allowances, which are fixed numerically in the Federal Order regulations, were established by USDA in 2008, based on surveys of manufacturing costs in 2006 and 2007, conducted by Cornell University and by the California Department of Food and Agriculture (CDFA). Costs of manufacturing butter, nonfat dry milk, cheddar cheese and dry whey have increased since the time the data was collected. NMPF members that operate manufacturing plants have indicated that their costs have risen substantially since 2008. It is virtually certain that the current costs of manufacturing are above the current make allowance values. The most recent voluntary survey-based study of dairy product processing costs[4] reported the following weighted-average processing costs for 2022, compared with the current make allowances:

Product	Current Make Allowance ($/lb)	Weighted-Average Cost ($/lb)	Increase ($/lb)
Butter	$0.1715	$0.3176	$0.1461
Nonfat Dry Milk	$0.1678	$0.2750	$0.1072
Cheddar Cheese	$0.2003	$0.2643	$0.0640
Dry Whey	$0.1991	$0.3361	$0.1370

From discussions with members, it is clear that dairy product processing costs have increased, and therefore, average manufacturing costs for butter, nonfat dry milk, cheddar cheese, and dry whey are higher than the current Federal Order make allowances. But several challenges are encountered when using existing, voluntery survey plant cost data or analyses to establish updated make allowances with the specificity needed. These include:

While NMPF recognizes the cost of manufacturing dairy products has increased since the make allowances were last updated, there is clearly a need to establish a more regular and systematic method for updating the make allowances as well as the yield factors in Federal Order component price formulas. This will require providing the Department with the authority to conduct periodic manufacturing cost surveys that can supply this necessary information. NMPF is engaged with members of Congress to accomplish this. Under such authority, manufacturers of the commodity dairy products referenced in these formulas would be mandated to provide auditable cost and product yield data. Manufacturers are already mandated to provide sales price

[3] *See* 64 Fed. Reg. 16,091 (evaluating alternatives to BFP based on "(a) stability and predictability; (b) simplicity, uniformity, and transparency; (c) sound economics—e.g., consistency with market conditions; and (d) reduced regulation.").

[4] Cost of Processing in Cheese, Whey, Butter and Nonfat Dry Milk Plants, Mark Stephenson, Ph.D., June, 2023.

data for such products pursuant to the Dairy Product Mandatory Reporting Program. Larger, more representative sample sizes than those achievable by previous, voluntary studies are needed to establish proper values for the critically important make allowances and yield factors. NMPF is seeking the enactment of such authority in the upcoming Farm Bill.

There are consequences to setting make allowances too low relative to the actual cost of manufacturing under a system of PPFs. Inadequate make allowances challenge manufacturing operations' abilities to pay minimum announced milk prices and still operate their facilities at reasonable rates of return. This discourages the plant investment needed to provide market demand on a daily, seasonal and annual basis. As the Department itself noted in its Final Decision on Federal Order Reform in 1999: "The importance of using minimum prices that are market-clearing for milk used to make cheese and butter/nonfat dry milk cannot be overstated. The prices for milk used in these products must reflect supply and demand and must not exceed a level that would require handlers to pay more for milk than needed to clear the market and make a profit."[5] And in its Final Decision, Proposed Rules for the current make allowances, the Department also pointed out when manufacturing costs of commodity products exceed the established make allowances, the calculated classified prices will essentially overvalue raw milk as an input. The Department also noted the importance of accurate and up-to-date make allowances in determining minimum classified values of milk: "Accordingly, the accuracy of deriving the minimum value of raw milk is dependent on the accuracy of the commodity sale prices reported and, in large part, the accuracy of the manufacturing cost factors, or make allowance factors, that are used in the pricing formulas."[6] In short, the current, outdated make allowances need to be revised to account for increases in manufacturing costs of the four main dairy product commodities, butter, nonfat dry milk, cheddar cheese and dry whey. USDA must consider the best plant processing cost data available when updating make allowances. However, given the length of time during which the current make allowances have remained unchanged, making a one-time change to levels that reflect likely current costs would itself be disruptive to dairy producers and impose undue financial hardships on them, with potentially negative impacts on providing adequate supplies of milk to some manufacturing operations.

Negative impacts from outdated make allowances are unfairly borne by cooperative member dairy farmers

Cooperatives operate dairy manufacturing plants in nearly all Federal Order marketing areas. These manufacturing plants balance milk supplies in the market when Class I, II and III customers need more or less milk to service their accounts. In this way, cooperative manufacturing plants balance the market by providing an outlet for milk not needed by their customers on a seasonal, monthly, weekly, and even daily basis. Cooperative manufacturing plants represent financial investments by their members. Cooperative members have paid to build and maintain their cooperatives' manufacturing plants and are responsible for the costs to operate them. When Federal Order make allowances are established at levels below the costs of producing commodity dairy products, farmers whose cooperatives own and operate balancing plants end up absorbing costs that other market participants do not experience but benefit from

[5] 64 Fed. Reg. 16,094-95 (April 2, 1999).
[6] 78 Fed. Reg. 9269 (February 7, 2013)

the orderly marketing system enabled by the cooperatives operating milk balancing plants. As cooperatives pass the marketwide service-related balancing losses to their members via reduced pay prices, producers shipping to cooperatives and other handlers that do not operate balancing plants do not experience these lower pay prices. This unfairly penalizes dairy cooperative members who invest in plant and marketing systems to support orderly marketing.

The dairy products referenced in the Class III and Class IV milk pricing formulas are primarily commodity products, not retail or branded products. Many of NMPF's member cooperatives own and operate plants that manufacture commodity dairy products. To maximize plant throughput, plant managers typically set processing schedules to include a high percentage of commodity products even though these products typically have smaller margins than branded products. This approach of maximizing a plant's processing capacity is especially important in clearing the milk supply available to local markets, as discussed previously.

The Proposed Solution: NMPF's specific make allowance request

Although the current Federal Order make allowances are overdue for updates, the data available to do so are not sufficiently comprehensive, verifiable and unambiguous to establish revised make allowances confidently. Accuracy and specificity are required to make such changes because "the make allowances…should cover the costs of *most* of the processing plants that receive milk pooled under the orders."[7] Also, because make allowances have not been altered for so many years, bringing them up to date in a single step would create disorderly market conditions due to the impact on regulated milk prices. Accordingly, NMPF recommends that the make allowances be updated as follows:

1. Provide an interim increase to alleviate the acute problems and disorderly market conditions created by the current, clearly insufficient make allowances.
2. Enact the authority for the Department to conduct mandatory, auditable plant processing cost studies, conduct such a study under that authority, and present the resulting data to the industry, which will enable interested parties to make requests for further make allowance adjustments on the basis of proper and adequate data.
3. Continue to conduct and report plant processing cost studies regularly and systematically under the same legislative authority and mandate.

NMPF's proposal strikes a balance between several objectives. It is directionally correct to increase make allowances from their current inadequate levels, but, in the absence of definitive data, not increasing them so high as to be dependent on projections or on plant processing cost survey results that have been disputed. After much debate and after an extensive analysis using many different methods, NMPF adopted the recommended make allowance increases that we believe are adequate, acceptable, and reasonable. Relative to being adequate, again, NMPF proposes a two-step approach which we believe provides both necessary and sufficient increases for the near-term, but more importantly, once USDA has been given the authority to conduct a mandatory cost study, then the industry will have the definitive data necessary to make longer-

[7] 65 Fed. Reg. 76,839 (Dec. 7, 2000) (emphasis added).

term make allowance modifications. In terms of being acceptable and reasonable, NMPF believes a balance must be struck between the various industry stakeholders, and its recommended make allowance increases do so in an orderly, acceptable, and reasonable manner for the entire dairy industry.

Proposals Submitted by Select Milk Producers, Inc. (Select)

USDA accepted three proposals submitted by Select as within the scope of this hearing. These are Proposal 10, to increase the butterfat recovery factor in the Class III price formula; Proposal 11, to update the specified yield factors to reflect actual farm-to-plant shrink; and Proposal 12, to update the nonfat solids factor. NMPF appreciates that Select's proposals were submitted in the same vein as those of NMPF, with the intent to update and modernize aspects of the minimum price formulas that have not been comprehensively updated since Federal Order Reform. Indeed, NMPF recognizes the need to consider updating the price formula yield factors as well as the make allowances, but it submitted no proposals for this purpose due to the lack of any comprehensive data to do so. Although Select has indicated it intends to submit evidence and testimony at this hearing to support Proposals 10, 11, and 12, NMPF unfortunately is unable to support these three proposals at this time, since such support would be inconsistent with NMPF's basic position on updating make allowances and yield factors. Namely, the only way to establish the "correct" values for these critical component formula coefficients is through the conduct of a mandatory, auditable survey of plants that manufacture the products used in these formulas. NMPF, together with other parties at this hearing, is currently seeking to secure the authority and funding for the Department to conduct just such studies in the current Farm Bill.

This testimony provides an overview of our justification for adoption of Proposal 7. More detailed testimony will follow that supports all, or key portions of, Proposal 7, including testimony provided by Christian Edmiston and Paul Bauer, representing, respectively, NMPF member cooperatives Land O' Lakes Inc. and Ellsworth Cooperative Creamery, as well as several expert witnesses, other members of the NMPF task force that developed our Federal Order modernization proposals, and producers who are members of NMPF member dairy cooperatives.

Economic and Market Impacts of NMPF's Proposed Changes

Dr. Scott Brown of the University of Missouri will testify later at this hearing on his analysis of the economic impact of adopting NMPF's five proposals previously described. His analysis will show that these proposals will have a modestly positive impact on the average price of milk received by dairy farmers, which will dissipate fairly rapidly. The resulting average prices are expected to converge within a few years to their "baseline" levels, i.e., levels expected to prevail in the absence of any order changes.

The changes proposed by NMPF will not affect the cost of producing milk nor constrain the supply of milk freely produced by the nation's dairy farmers in response to market price signals.

Without either of these effects, the price of milk will continue to reflect the longer-term costs of producing it, which are not directly affected by the Federal Order regulatory changes proposed by NMPF. Any and all changes to the prices of individual dairy products, or to the Federal Order regulated cost of milk for processing individual dairy products generated by these proposals, will be limited to those necessary to reflect changes in the costs of manufacturing those products, changes in the costs of supplying milk to processors of those products, changes in the value of the milk supplied by producers to those processors, or other changes necessary to more closely align the regulated minimum value of milk with the market value of the products into which it is produced, as translated by the federal order product price formulas. Such realignment is critical to the effective functioning of the Federal Order program to ensure orderly marketing, given the fixed parametric nature of the product price formulas, coupled with the rapid evolution of the basic structural features of the U.S. dairy industry that those parameters are intended accurately to reflect.

Figure 1 below provides a perspective on the key issue of the impact on consumers of the Federal Order program, and potential changes to the regulatory provisions of that program. It charts the monthly Consumer Price Indices (CPIs) reported by the U.S. Bureau of Labor Statistics (BLS) over the past decade and a half for all items, which is the general measure of overall consumer price inflation, also referred to as the overall cost of living, together with the aggregate CPIs for all food and beverages, for all dairy products, and for all fluid milk products, the principal regulatory focus of the Federal Order program. These CPIs reflect actual retail prices paid in all U.S. cities, but they are expressed in the form of indices, with their respective U.S. average retail prices during the 36-month period of 1982-84 each set to the value 100, to facilitate comparisons.

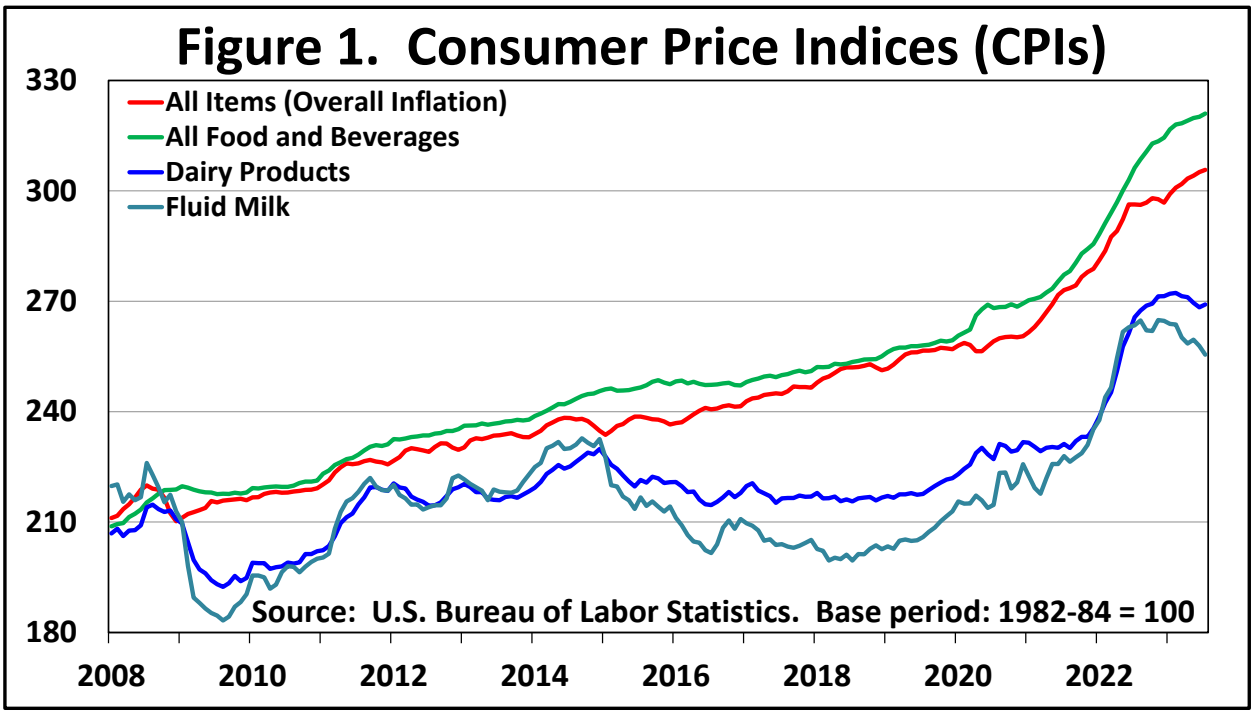

Figure 1 shows that the retail prices represented by all four of these measures had increased as of 2008 by about the same amount, slightly more than doubling during the quarter-century since the index base period. From 2008, the overall cost of living and the cost of all food and beverages have both continued to increase at a relatively steady pace, which accelerated during the recent bout of inflation, with food and beverage prices slightly outpacing the overall inflation rate, particularly in recent months.

The less aggregated dairy and fluid milk CPIs have shown a greater sensitivity to the price of producer milk, including the 2009 price plunge, the price spikes of 2014 and 2022, and the stagnation of prices between these two peaks. This closer connection between farm and retail prices for dairy stems from the fact that the cost of raw milk has averaged about 31 percent of the retail value of dairy products since 2002, while the farm value of most food and beverage products represents a much smaller share of the total retail value the finished products, which accordingly reflect more closely the main drivers of overall retail price inflation, including such factors as energy, labor and transportation. However, these factors have also caused retail price inflation for dairy products to outpace general and food and beverage price inflation during the recent bout of general price inflation, but also to recover more quickly from it, with dairy product retail prices actually dropping this year while the two more general CPIs continued to increase.

But, of particular significance for the current purpose, the overall cost to consumers of dairy products, and fluid milk products in particular, has declined during the illustrated period relative to both overall inflation as well as general food and beverage price inflation. One noteworthy datum is that the simple difference by which the monthly CPI for all fluid milk has fallen below the monthly CPI for all food and beverages reached its highest level ever in July 2023.

Agricultural production enjoys built-in productivity advantages due to its biological basis, which can generate increases in production per animal or increases in production per planted unit as a result of genetic improvements and other productivity enhancements unique to biological production processes. These advances generate unit cost reductions which the competitive nature farming passes on up the various agricultural and food marketing channels, eventually to consumers. This consumer cost reduction aspect of agriculture varies in direct relation to the proportion which the basic agricultural commodity represents of the total retail value of the resulting food products, which, as mentioned, is relatively high for dairy products. This aspect of agricultural production, coupled with the great productivity of U.S. agriculture, has resulted in the general cost of food representing one of the smallest proportions of total consumer income in the United States, compared to that in all other countries.

It is therefore very difficult to consider the facts presented in Figure 1, which reflect the relative influence of all economic factors at play in producing general, food and beverage, overall dairy product, and fluid milk product price inflation over the past decade and a half, a period that includes the continuous operation of the Federal Order program, and conclude that Federal Orders have had a deleterious effect on consumer welfare via the retail price of fluid milk and

retail prices of dairy products in general. And, given the results of Dr. Brown's analysis, this will continue to be the case under the Federal Order modernization changes proposed by NMPF.

Another key issue is the impact of the Federal Order program, and potential changes to the regulatory provisions of that program, on small businesses. As stated in the notice for this hearing, most parties subject to a FMMO are considered a small business. A large majority of those are dairy farm businesses, which, for the purpose of the Regulatory Flexibility Act (5 U.S.C. 601-612) (RFA), are defined as a "small business" if they have an annual gross revenue of $3.75 million or less.

Table 1 provides simple estimates of the average herd size and average milk sales per herd of the producers pooled on the individual Federal Orders in 2022. These estimates are weighted averages by herd sizes in the individual states that lie wholly or partially in the respective Federal Order marketing areas. These estimates would indicate that most of the producers pooled in Federal Orders in 2022 would qualify as small businesses for the purpose of the RFA.

Table 1. Estimated Dairy Herd Statistics in Federal Milk Marketing Order Areas, 2022

Order #	Licensed Dairy Herds	Average Herd Size	Average Sales per Herd
		Head	*Mil.$/Yr*
1	3,668	171	$1.0
5	769	231	$1.3
6	56	1,617	$9.1
7	620	394	$2.0
30	8,338	352	$1.4
32	2,125	772	$3.2
33	4,107	211	$1.4
51	1,115	1,544	$8.7
124	508	777	$4.6
126	435	2,085	$12.5
131	80	2,463	$14.4

Estimates by National Milk Producers Federation

As mentioned previously, Dr. Brown's analysis and testimony will show that the Federal Order modernization changes proposed by NMPF will have a modest, positive impact on the average price of milk received by the mostly small businesses that are dairy farmers in the United States. Also as previously mentioned, any and all changes to the prices of individual dairy products, and to the Federal Order component and class prices resulting from these proposals, and therefore to the uniform prices received by dairy farmers in individual orders and regions, will be limited to those necessary to reflect changes in the costs of manufacturing those products, changes in the costs of supplying milk to processors of those products, changes in the value of the milk supplied

by producers to those processors, or other changes necessary to more closely align the regulated minimum value of milk with the market value of the products from which it is produced, as translated by the Federal Order product price formulas. This will also apply to any processors and manufacturers of dairy products which are also small businesses.

Concluding comment and proposed regulatory changes

NMPF sincerely wishes to thank Secretary Vilsack and the Department for holding this important hearing and for thoughtfully considering adoption of its proposed amendments to the Federal milk marketing order regulations. NMPF has devoted considerable time and resources to thoughtfully considering and recommending the important changes it considers necessary to correct the growing misalignment between the dynamic changes in the U.S. dairy industry since Federal Order Reform and the largely unchanged factors in the critical federal order component and class price formulas originally adopted at that time. Together, NMPF is requesting the Secretary to amend certain provisions of 7 C.F.R. § 1000.50-52, applicable to all Federal milk marketing orders, and 7 C.F.R. §1005.51(b), §1006.51(b), and §1007.51(b). The changes to these regulations that Proposal 7 would entail are as follows (includes some changes pursuant to Proposal 3):

§ 1000.50 Class prices, component prices, and advanced pricing factors.

* * * * *

(l) ***Butterfat price.*** The butterfat price per pound, rounded to the nearest one-hundredth cent, shall be the U.S. average ~~NASS~~ **AMS** AA Butter survey price reported by the Department for the month, less ~~17.15~~ **21.00** cents, with the result multiplied by 1.211.

(m) ***Nonfat solids price.*** The nonfat solids price per pound, rounded to the nearest one-hundredth cent, shall be the U.S. average ~~NASS~~ **AMS** nonfat dry milk survey price reported by the Department for the month, less ~~16.78~~ **21.00** cents ~~and multiplying the result~~ **with the result multiplied** by 0.99.

(n) ***Protein price.*** Strike all subsequent parts of this paragraph and insert in lieu thereof:

(1) Subtract 24.00 cents from the U.S. average AMS survey price for 40-lb. block cheese reported by the Department for the month and multiply the result by 1.383;

(2) Add to the amount computed pursuant to paragraph (n)(1) of this section an amount computed as follows:

(i) Subtract 24.00 cents from the U.S. average AMS survey price for 40-lb. block cheese reported by the Department for the month and multiply the result by 1.572; and

* * * * *

(o) *Other solids price*. The other solids price per pound, rounded to the nearest one-hundredth cent, shall be the U.S. average ~~NASS~~ **AMS** dry whey survey price reported by the Department for the month minus ~~19.91~~ **23.00** cents, with the result multiplied by 1.03.

* * * * *

(q) ***Advanced pricing factors.*** …

* * * * *

(3) An advanced butterfat price per pound rounded to the nearest one-hundredth cent, shall be calculated by computing a weighted average of the 2 most recent U.S. average ~~NASS~~ **AMS** AA Butter survey prices announced before the 24th day of the month, subtracting ~~17.15~~ **21.00** cents from this average, and multiplying the result by 1.211.