

Land O'Lakes, Inc.

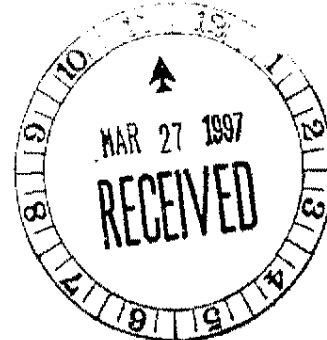
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FOR-1426

March 21, 1997

Dairy Division, AMS, USDA
ATTN: BFP Evaluation
Room 2968-S
Box 96456
Washington, DC 20090-6456



Dear Sec. Glickman:

On behalf of Land O'Lakes and Atlantic Dairy Cooperative, I am writing to express our opinion that USDA should continue to use price data from the National Cheese Exchange as a component in the monthly adjuster to the Basic Formula Price reported by the Department. This recommendation is based on our belief that the monthly adjuster is necessary to improve the accuracy of the BFP as a measure of the value of milk for manufacturing purposes, that the NCE is currently the most reliable source of information on the value of cheese, and that the credibility of the NCE as a source of price data can be enhanced to improve public confidence in the data.

The monthly adjuster plays a useful role in helping assure that the BFP more closely tracks the value of milk for manufacturing purposes. One of the weaknesses of the old M-W was that in times of volatile markets, the survey of prices paid for Grade B milk was too narrow to accurately keep up with the market movement. That same problem exists today. The value of dairy products can change rapidly from month to month, and those changes provide a useful signal about the value of milk for manufacturing purposes. Therefore, retaining the update as part of the process improves the overall accuracy of the BFP.

Currently, the National Cheese Exchange is the most reliable source of information about the value of cheese, for the purpose of updating the BFP. The NCE data is easily obtained, it's already standardized, and it doesn't require new or additional surveys by USDA. Furthermore, because of the way cheese buyers and sellers utilize the NCE, it provides the first signal of market movement. And while the controversy about the NCE is generated by price declines, it also provides the earliest possible signal of price increases as well.

Having said that, however, we believe that certain changes would improve the responsiveness of the NCE and improve confidence in the reliability of price data from it. These improvements to the NCE include more frequent trading sessions, establishing the capability for electronic trading and anonymous trading. We also support CFTC oversight of NCE trading, a move that certainly would result in improved confidence in the reliability of NCE data.

The final point I'd like to make is that we view this short term review of the role of the NCE as an interim step. The goal of this current review should be to do whatever is necessary to preserve confidence in USDA's process for calculating the BFP. But we urge you to keep focused on the long-term goal of developing a permanent replacement for the BFP consistent with the process of reforming federal milk marketing orders as specified by the FAIR Act.

In writing on behalf of Land O'Lakes and Atlantic Dairy Cooperative, we wish to inform you that the members have approved a merger of the two cooperatives. This merger takes effect on April 1. The merged cooperative will continue under the name Land O'Lakes, and we will represent about 7,000 dairy farmers in Minnesota, Wisconsin, the Dakotas, Pennsylvania, Maryland, Delaware, West Virginia, and New York. Thank you for considering our input on the NCE.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Krikava', written in a cursive style.

Steven Krikava, Director
Government Relations & Membership