



MID - AMERICA DAIRYMEN, INC.

3253 E. CHESTNUT EXPWY

• SPRINGFIELD, MISSOURI 65802

• A.C. 417/865-7100

November 18, 1996

Mr. Richard McKee
Director, Dairy Division
USDA/AMS/Dairy Division
Room 2968 South Building
P.O. Box 96456
Washington, DC 20090-6456

Dear Mr. McKee,

Mid-America Dairymen, Inc. requests an emergency National Federal order hearing to consider flooring the Basic Formula Price for use in calculating Class I and II prices at \$13.50 effective January 1, 1997 and continuing for an indefinite period of time.

Dairy farmers continue to suffer major financial hardship due to a cost/price squeeze. Milk and dairy product prices recently reached record high levels. However, these prices did not last long enough for farmers to recover from record high feed costs earlier this year.

The reported decrease in central market grain prices is misleading as to the economic well being of dairy farmers. While grain prices are currently lower in grain producing areas, in many parts of the country where dairy farmers purchase their concentrate from commercial feed manufacturers, their feed costs do not reflect the lower corn and soybean prices. This is at a time when cull cow prices continue at depressed levels. Consequently, farmers are once again caught between lower milk checks and high feed bills. Forage cost and availability continues to be a problem which is not addressed by decreases in grain prices at central elevators. These two factors continue to cause dairy farmers economic stress.

Mid-Am does not expect low prices to continue throughout 1997. As the milk supply seasonally tightens in early fall, we believe the Basic Formula Price will rise above \$13.50. However, flooring the Basic Formula Price that sets Class I and II prices at \$13.50 will "bridge the gap" until dairy commodity markets become more stable.

Volatility is not good for producers, handlers or consumers. Financial planning becomes increasingly difficult for producers. Handlers must contend with customers who don't understand the complicated milk pricing system, especially when the cheese market is the primary determinant of fluid milk and cultured product prices.

The Basic Formula Price is directly related to the 40 pound cheddar block price at the National Cheese Exchange as illustrated by the attached Chart A. Mid-Am estimates the December Basic Formula Price will be \$11.16 per cwt., a decrease of \$4.21 from the September peak of \$15.37. A price decrease of \$4.21 per cwt. will force large numbers of dairy farmers over large areas of the

country out of business during the first quarter of 1997. The result of this exodus of dairy farmers will jeopardize the supply of milk available for fluid use next fall in broad areas of the United States. This will not be good for producers, handlers or consumers.

A \$4.21 decline in Class I and II prices is not justified. The resulting decline in Class I and II prices is a function of an outdated method of pricing milk. The market for Class I and II products, by definition, is different from the market for Class III and III-A products. Prices for Class I and II products should be decoupled from the value of milk used to manufacture cheese, butter or nonfat dry milk. There is no reason for the raw product cost to be reduced when consumers have not demonstrated a reduction in demand at the retail level. The attached Chart B compares Class I utilization for various Federal orders at times of high prices and low prices. During July through September, 1996, Class I producer milk in all Federal orders was 1.71% higher than the same period in 1995. The average Basic Formula Price used to calculate Class I prices during this period was \$2.80 per cwt (25%) higher in 1996 compared to 1995. Clearly, consumer demand was not adversely affected by an increase in raw milk prices.

The Federal order system is the ideal forum in which a price floor can and should be administered. Fair and equitable pricing consistent with stable marketing conditions for producers and handlers alike, can best be accomplished through the use of Federal orders. A floor under the Basic Formula Price in all Federal orders would not cause competitive problems among handlers. No change to Class I differentials is requested, so the relative price surface would remain unchanged.

For the above stated reasons, Mid-America Dairymen, Inc. requests an emergency hearing to consider a \$13.50 minimum Basic Formula Price for use in establishing Class I and II prices in all Federal orders effective January 1, 1997 and continuing for an indefinite period of time. Your prompt response would be greatly appreciated.

Sincerely,

MID-AMERICA DAIRYMEN, INC.

Bill Blakeslee
Corporate Vice President,
Chief Operating Officer of Southern Fluid Group

BB/dr

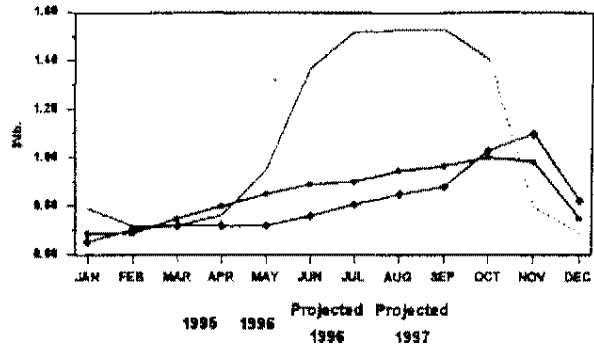
Proposal to Increase Milk Prices

The Basic Formula Price is expected to drop \$4.21 per cwt. from September to December of this year.

Higher Class I utilization markets will see their blend prices drop significantly starting in December (checks received in January). Lower Class I utilization market blends are already reflecting the drop. For example, the Upper Midwest and New Mexico - West Texas Federal order blend prices for October were down \$0.87 and \$0.70, respectively

-1-

Grade 'AA' Butter Price
1995, 1996 & 1997



-2-

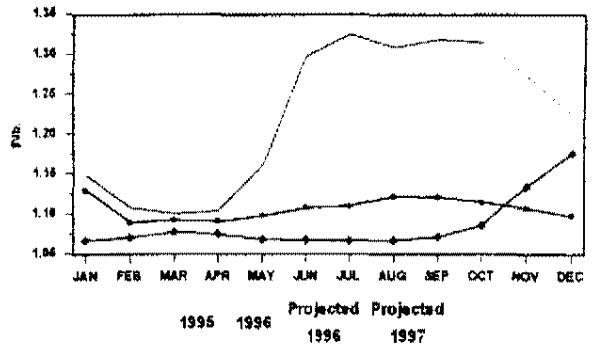
'AA' Butter Price

| | 1995 | 1996 | 1997 |
|-----------|----------|-----------|-----------|
| January | \$0.6648 | \$0.7923 | \$0.6900* |
| February | 0.7071 | 0.7214 | 0.6900* |
| March | 0.7200 | 0.7200 | 0.7600* |
| April | 0.7200 | 0.7620 | 0.8000* |
| May | 0.7200 | 0.9490 | 0.8600* |
| June | 0.7600 | 1.3663 | 0.8900* |
| July | 0.8066 | 1.6194 | 0.9000* |
| August | 0.8500 | 1.6300 | 0.9484* |
| September | 0.8810 | 1.6300 | 0.9683* |
| October | 1.0274 | 1.4036 | 1.0000* |
| November | 1.1000 | 0.7973* | 0.9833* |
| December | 0.8226 | 0.6900* | 0.7600* |
| Average | \$0.8141 | \$1.0681* | \$0.8617* |

*Estimated

-3-

Central States NFDM Price
1995, 1996 & 1997



-4-

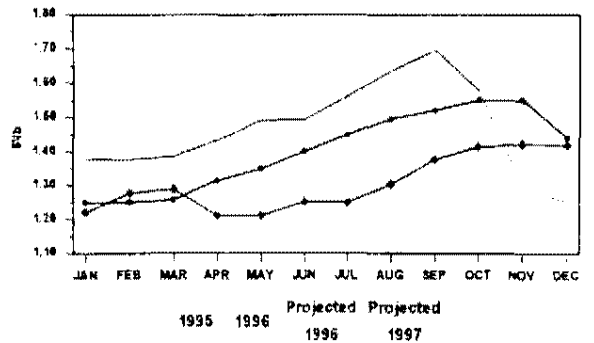
Central States NFDM Price

| | 1995 | 1996 | 1997 |
|-----------|----------|-----------|-----------|
| January | \$1.0671 | \$1.1486 | \$1.1300* |
| February | 1.0708 | 1.1084 | 1.0900* |
| March | 1.0777 | 1.1008 | 1.0930* |
| April | 1.0766 | 1.1032 | 1.0910* |
| May | 1.0684 | 1.1600 | 1.0980* |
| June | 1.0676 | 1.2976 | 1.1080* |
| July | 1.0669 | 1.3267 | 1.1100* |
| August | 1.0669 | 1.3091 | 1.1220* |
| September | 1.0718 | 1.3190 | 1.1210* |
| October | 1.0864 | 1.3156 | 1.1160* |
| November | 1.1340 | 1.2732 | 1.1076* |
| December | 1.1761 | 1.2233* | 1.0980* |
| Average | \$1.0668 | \$1.2237* | \$1.1070* |

*Estimated

-5-

Green Bay Block Cheese Price
1995, 1996 & 1997



-6-

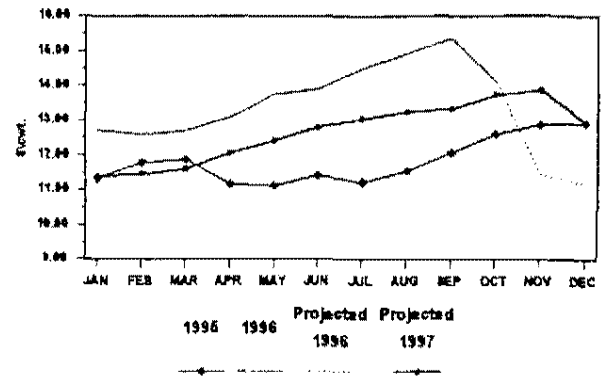
Green Bay Block Cheddar Cheese Price

| | 1995 | 1996 | 1997 |
|-----------|----------|-----------|-----------|
| January | \$1.222 | \$1.3788 | \$1.2600* |
| February | 1.2780 | 1.3776 | 1.2600* |
| March | 1.2900 | 1.3874 | 1.2684* |
| April | 1.2110 | 1.4326 | 1.3140* |
| May | 1.2113 | 1.4926 | 1.3600* |
| June | 1.2626 | 1.4933 | 1.4000* |
| July | 1.2603 | 1.5623 | 1.4500* |
| August | 1.3037 | 1.6368 | 1.4960* |
| September | 1.3774 | 1.6942 | 1.6200* |
| October | 1.4148 | 1.6793 | 1.6600* |
| November | 1.4226 | 1.2978* | 1.6600* |
| December | 1.4191 | 1.2500* | 1.4400* |
| Average | \$1.3044 | \$1.4661* | \$1.4023* |

*Estimated

-7-

BASIC FORMULA PRICE 1995, 1996 & 1997



-8-

Basic Formula Milk Price

| | 1995 | 1996 | 1997 |
|-----------|---------|----------|----------|
| January | \$11.36 | \$12.73 | \$11.39* |
| February | 11.79 | 12.69 | 11.46* |
| March | 11.89 | 12.70 | 11.61* |
| April | 11.16 | 13.09 | 12.06* |
| May | 11.12 | 13.77 | 12.41* |
| June | 11.42 | 13.92 | 12.79* |
| July | 11.23 | 14.49 | 13.06* |
| August | 11.66 | 14.94 | 13.26* |
| September | 12.08 | 16.37 | 13.36* |
| October | 12.61 | 14.13 | 13.74* |
| November | 12.87 | 11.43* | 13.87* |
| December | 12.91 | 11.16* | 12.94* |
| Average | \$11.83 | \$13.36* | \$12.66* |

*Estimated

-9-

Proposal to Increase Milk Prices

Plan of Action

- (1) Raise or prevent the decrease of the Basic Formula Price (BFP)
 - (a) Urge the Secretary of Agriculture to increase Dairy Export Incentive Program (DEIP) sales (see page 12)
 - (b) Activate the DEIP Coalition (see page 13)
 - (c) Urge the Secretary of Agriculture to increase purchases of Cheese for the Food & Nutrition Service (School Lunch Program) (see page 14)
 - (d) Attempt to create a Cheese Marketing Agency

-10-

Proposal to Increase Milk Prices

Plan of Action Con't

- (e) Urge the Secretary of Agriculture to use the Food for Progress Program – food assistance donations under P.L. 480 (see page 15)
- (f) Focus advertising on cheese. Ask all other promotion groups to maximize cheese advertising budget (see page 16)
- (2) Raise or Floor Class Prices under Federal Orders
 - (a) Decouple Class I & II prices from declining cheese prices by asking for an emergency hearing to floor the BFP at \$13.50 (see pages 17 - 20)
 - (b) Work through our various Common Agencies to increase premiums in Class I markets and/or establish a BFP floor (see page 21)

-11-

Dairy Export Incentive Program (DEIP)

| POUNDS OF PRODUCT | 1995 | 1996 | 1994 | 1993 |
|-------------------|----------------|-----------------|------------------|------------------|
| BUTTER/BUTTEROIL | 0 | 38,340,817 | 83,627,092 | 45,006,909 |
| NFDM | 76,477,574 | 283,939,252 | 261,511,857 | 258,273,299 |
| WMP | 3,681,682 | 3,169,125 | 31,316,343 | 35,710,111 |
| TOTAL | 80,159,256 | 315,630,377 | 292,828,200 | 293,983,410 |
| AMERICAN CHEESE | 1,761,475 | 2,258,306 | 4,914,063 | 5,654,799 |
| MOZZARELLA CHEESE | 2,567,336 | 2,961,969 | 2,566,164 | 1,082,469 |
| GOUDA CHEESE | 0 | 0 | 41,887 | 0 |
| CREAM CHEESE | 199,414 | 0 | 0 | 0 |
| TOTAL | 4,318,911 | 5,207,265 | 7,522,095 | 6,737,258 |
| MILK POUNDS | 608,419,485 | 2,714,608,288 | 3,066,810,365 | 2,550,479,667 |
| GOVERNMENT COSTS | \$6,041,927.26 | \$63,166,322.66 | \$159,140,680.70 | \$143,001,000.00 |

-12-

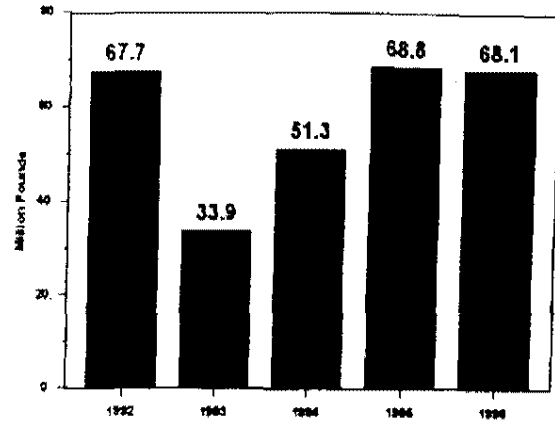
The DEIP Coalition Membership Roster

| | |
|--|--|
| Agri-Dairy Products, Inc. | Chevy Trading Company/Philpot Dairy Products |
| Agribest, Inc. | Hoagberg, Inc. |
| Associated Milk Producers, Inc. | Industriol, Inc., USA |
| Atlantic Dairy Cooperative | T. C. Jostly & Co., Inc. |
| California Milk Producers | Land O'Lakes, Inc. |
| Challenge Dairy Products, Inc. | Burt Laska, Inc. |
| Revised A. Chisholm, USA | Maryland & Virginia Milk Producers Cooperative |
| CVI International, Inc. | Michigan Milk Producers Association |
| Chaffee Dairy & Feed Products | Mid-America Dairyman, Inc. |
| DairyAmerica, Inc. | Milk Marketing, Inc. |
| Dairyman's Cooperative Creamery Assoc. | O.A.T.K.A. Milk Products Cooperative |
| DAIRYCO, Inc. | PS International, Ltd. |
| District's Milk Products, Inc. | San Joaquin Valley Dairyman Association |
| Farmer's Cooperative Creamery | Serrano Cheese Company, Inc. |
| First Feed Manufacturers, Inc. | Tillamook County Creamery Association |
| Forrestal Farms | United Dairyman of Arizona |
| Fuller Farms Dairy | Vicent Cooperative Corporation |
| M. E. Francis, Inc. | Wilbur Agricultural Industries, Inc. |

A Coalition in Support of the Dairy Export Incentive Program
Philip L. Frank, Counsel
1000 Thomas Jefferson Street, NE Suite 407 West Washington, DC 20002 (202) 342-1388

-13-

Total Cheese Purchased for School Lunch Program



-14-

Emergency Food Assistance Programs

Public Law (P.L.) 480:

Emphasizes food security, hunger relief and economic security.

Section 416(b):

Provides for donations of CCC-owned surplus commodities for developing countries. Allows for CCC commodities to be used for P.L. 480 Titles II and III and the FFP program.

Food for Peace (FFP):

May be used to enhance the development of private sector agriculture in recipient countries. This program may be funded through P.L. 480 Title I appropriations and Section 416(b) resources.

-15-

Advertising and Promotion

DMI and other qualified local, regional and national promotion agencies are reviewing their advertising budgets in order to make funds available to "heavy-up" on cheese advertising and promotion.

-16-

Letter to Mr. Richard McKee, Director, Dairy Division requesting the hearing to floor the Basic Formula Price at \$13.50 per cwt. is attached.

BASIC FORMULA PRICE VS BLOCK CHEDDAR CHEESE

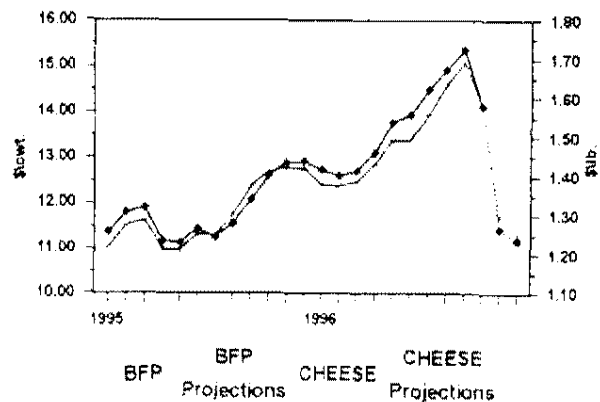


Chart A

-17-

Pounds of Milk Sold for Fluid Uses & Average Basic Formula Price used to Set Class 1 Prices

July - September

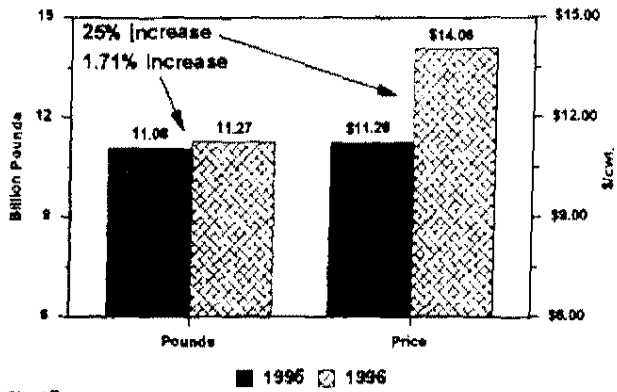


Chart B

Class 1 Common Marketing Agencies Where Mid - Am is a Member

