

Agri-Mark: Make Producers Pay Rising Plant Costs

by John Bunting

Fundamental to the rules of capitalism and the market system is the idea that cost plus profit equals selling price. To put it another way, all cost must be passed on. But not so in dairy.

The predominant New England dairy co-op, Agri-Mark, has asked the USDA's Agricultural Marketing Service for an emergency national milk order hearing to raise the "make allowance" for manufacturing plants. Agri-Mark wants to pass dairy manufacturing costs backwards to the farmer.

Agri-Mark's September 29 proposal states:

"Manufacturing costs for all dairy products have changed greatly from the 1998 to 2000 period. Energy costs have increased dramatically in the five to seven year period while medical related labor costs and insurance costs have increased substantially also. It would be incorrect, and in fact unreasonable, to assume that somehow technology or other efficiency improvements at existing plants have somehow entirely offset these escalating costs."

Agri-Mark incorrectly maintains: "Dairy product manufacturers under Federal Milk Orders are trapped into a fixed make allowance with no opportunity to cover their higher costs no matter what the price of their dairy products are."

Consequently Agri-Mark wants to:

- Raise the make allowances for cheese, whey powder, butter and nonfat dry milk.
- Lower the addition to the NASS barrel cheese price used in the Class III protein price formula from three cents to 1.5 cents.
- Change the protein price to account for the fact that whey butter has a lower value than the Grade AA butter price currently being used to value that by-product of cheese making.

"The fixed manufacturing cost allowances, currently in place throughout the Federal Order system, are completely unresponsive to any changes in actual costs until a Federal Order hearing is held and a USDA decision is determined to amend the appropriate provisions of the Federal Order regulations,"

claims Agri-Mark. However, Agri-Mark proposes to replace "fixed manufacturing cost allowances" with higher "fixed manufacturing cost allowances." Hardly a solution to what Agri-Mark claims to be the problem — continuously increasing costs.

The problem as stated by Agri-Mark is, "The Northeast has seen a number of manufacturing plants close and watched as the region's annual Class III milk volume have fallen from 703 million pounds in 2001 to 454 million pounds in the past 12 months." The proposal adds in the next sentence, "That's a 35% decline in only four years."

Federal Order One (the Northeast) lists Class III utilization as 7,675 million pounds for 2001. For the 12 months ending in August, the total is 5,368.1 million pounds. So, Agri-Mark's math is off a bit.

Agri-Mark's letter to USDA/AMS says, "Appropriate yield factors are also used to convert dairy product pounds to pounds of raw farm milk components (and eventually, hundredweights of farm milk)." That, too, is wrong. Many manufacturers added ultrafiltration while others have added MPCs in "starters." Both practices bump up cheese yield. **Since the make allowance is calculated on total pounds of cheese produced, many plants have already given themselves a raise.**

"Upwards adjustments in the manufacturing allowances will initially result in lower class prices for milk under the Orders and a reduction in the farm blend price," the proposal states. There are then some convolutions in the proposal involving more milk going into Class III and that the farmer, by some form of co-op voodoo milk pricing logic, will make more money. An old trick.

All of this is not to say many cheese plants are not hurting financially. They are. However, this idea is essentially an attack on capitalism, and therefore no solution at all.

Cash cheese markets...and federal milk order Class III pricing...are seriously flawed. Dumping cheese marketing and pricing inefficiencies on struggling dairy farmers' milk checks is no solution.