value of protein in cheese is inappropriate if a national uniform multiple component pricing plan is contemplated.

The multiple component pricing plans considered thus far for inclusion in Federal milk orders have been developed and proposed by the industry participants in the affected marketing areas. The plans have tended to be modified from one proceeding to the next, with ideas about the most appropriate provisions evolving as time goes on, and to reflect individual marketing conditions. The evidence in the record of this proceeding supports the pricing plan adopted in this decision for these 5 markets. Implementation of a multiple component pricing plan for these 5 markets should not be delayed because of the desire of some market participants for a national plan.

3. Components and component prices. Unlike the multiple component pricing plans adopted previously in other Federal milk marketing orders, this decision recommends the adoption of a pricing plan for milk based on three components rather than two. Under the five orders involved in this decision, milk should be priced on the basis of its protein, other nonfat solids, and butterfat components.

The protein price contained in this decision is based on the value of protein in the manufacture of cheese, as determined by cheese market prices, and is not a residual of the Minnesota-Wisconsin (M–W) price minus butterfat value as is the case in other MCP plans. The butterfat price would be based on the butter market, as it is in other multiple component pricing systems. "Other nonfat solids" will be priced as a residual of the M-W price minus protein value and butterfat value. The butterfat, protein, and other nonfat solids prices shall be expressed in dollars per pound carried to the fourth decimal place. In addition, payments to each producer should reflect the value of participation in the marketwide pools on a hundredweight basis.

As in other orders for which multiple component pricing has been adopted, this decision maintains the relationship of the value of producer milk to the M–W price. If the sum of the butterfat value and the protein value is greater than the M–W price, a situation which would result in a negative other nonfat solids price, the protein price will be adjusted such that the other nonfat solids price will be zero.

In testimony and brief a witness for the Trade Association of Proprietary Plants (TAPP) and Farmers Union Milk Marketing Cooperative (FUMMC) presented a plan that would pay producers for protein above a neutral zone of 3.00% to 3.29%, and provide deductions for protein levels below the neutral zone. The level of adjustment would be tied to the price of barrel cheddar cheese on the National Cheese Exchange, and would be used to adjust pay prices to producers in a manner similar to the current butterfat differential.

The witness said that milk traditionally has been purchased on a per hundredweight basis, with differential adjustments for levels of components. According to the witness, not only are producers usually paid on a per hundredweight basis, but milk is measured on a per hundredweight basis for purposes of plant accounting, payments between plants and to haulers, and by breed associations and DHIA with adjustments for percentages of components where necessary. The witness also claimed that using differential pricing would be revenue neutral.

Comments filed by TAPP in response to the recommended decision argued that the recommended pricing provisions would result in excessive price deviations between current and projected producer returns, and that a wide neutral zone of no adjustments for protein content should be included. TAPP's comments, and those of the North Dakota Milk Producers Association, reiterated the arguments for continuing to price milk on a hundredweight basis, with differentials for adjusting its value for protein and butterfat content. TAPP further predicted that pricing components on a per-pound basis would lead to discontinued use of the M–W price, as handlers of Grade B milk also would shift their payments to producers to a component basis.

The TAPP/FUMMC testimony and comments are correct that switching payments to producers from a per hundredweight system to one of pounds of components, as adopted in this decision, is not a minor change. Some expense will be incurred by handlers and producers in adapting to the new system. However, the benefits to the industry in the affected areas of adopting a uniform multiple component pricing system outweigh the one-time costs of its adoption. The implication that everyone connected with the dairy industry must adopt this system is not correct. Pounds of milk must still be accounted for under the multiple component pricing system. For example, nothing in this decision would prevent a handler from continuing to pay haulers on a hundredweight basis.

No testimony at the hearing from witnesses that have producers pooled under Federal orders that have already adopted multiple component pricing indicated that moving to a pricing system that prices milk components by the pound was an onerous burden. The transcript does reveal disagreement with the level of the protein price under some Federal orders with multiple component pricing, but little dissatisfaction with the system itself, nor complaints about the difficulty of switching to a component pricing system.

As to the argument that pricing protein and butterfat on the basis of price differentials would be revenue neutral, the multiple component pricing system recommended for adoption is designed neither to enhance nor reduce total producer returns. The only changes in the total pool value that may occur because of the recommended changes would result from differences in the protein and other nonfat solids content between milk pooled under the orders included in this proceeding and the milk included in the Minnesota-Wisconsin survey. In addition, some redistribution of the dollars involved in each pool can be expected between producers, and between handlers.

The proposal by TAPP and FUMMC, and the exceptions filed by TAPP and the North Dakota Milk Producers Association, to leave butterfat on a differential pricing basis and to price protein on a differential basis with a neutral range are not included in this decision. To continue to pay producers for butterfat and to add payment for protein on the "traditional" differential system would confuse and frustrate producers in the understanding of their milk checks. Continued use of differentials would perpetuate the volume-based pricing system with a high value on water, and would fail to give producers a true price signal of what the marketplace wants.

If, as predicted by TAPP's comments, pricing components on a per-pound basis leads to discontinued use of the M–W price, such a shift ought to be gradual enough to allow time for a new pricing structure to be developed for milk used in manufactured products. As noted in the recent M–W replacement decision, the recently-amended procedure for determining the M–W price is not considered to be a long-term solution.

The use of differentials in pricing milk components is not widely understood. There is no valid reason to continue an outmoded and confusing pricing system in valuing milk components. Pricing components on a