

current pricing does not benefit anyone in the industry."

The third competitive pay price series advanced as an alternative to the current M-W price is the Agricultural Prices M-W (Ag Prices M-W), which was developed for the study in response to an industry request to make the least amount of change necessary to replace the current M-W price. The Ag Prices M-W is an approximation of the base month M-W price and is calculated from NASS' "Prices Received" series, which includes estimates of manufacturing grade milk prices for Minnesota and Wisconsin. The "Prices Received" estimates are computed approximately two weeks prior to the tabulation of the base month M-W price. These estimates are published around the end of each month in "Agricultural Prices", a NASS publication.

The "Prices Received" estimates are derived from reports of plants that are part of the base month sample. These prices for Minnesota and Wisconsin are weighted together using the same weights as in the M-W price to determine the Ag Prices M-W. Thus, the Ag Prices M-W available on the 5th day of the month would be the price for the second preceding month. The price announced March 5th would represent January pay prices. The volume of Grade B milk represented in the "Prices Received" sample represents about 30 percent of all Grade B milk sold in Minnesota and Wisconsin.

The adoption of the Ag Prices M-W updated with a product price formula was supported by numerous producer organizations during the hearing. One proponent of this replacement option, proposal number six, was the National Milk Producers Federation (NMPF), a federation that represents a substantial number of dairy cooperative marketing associations. A witness speaking on behalf of NMPF testified that there are currently sufficient quantities of Grade B milk being marketed in Minnesota and Wisconsin to allow NASS to collect reliable price information received by dairy producers for Grade B milk in those States.

The NMPF witness further stated that the Ag Prices M-W "will reflect a price level determined by competitive conditions which are affected by supply and demand in all the major uses of manufactured dairy products. It is a free market pay price resulting from competitive bidding among unregulated processors for milk for various manufacturing uses and is a good measure of changes in the value of milk for manufacturing." The witness also testified to the need for updating the Ag

Prices M-W because Federal order prices should reflect current market conditions as much as possible and the one-month lag created by this formula would be unacceptable. The proponents of the Ag Prices M-W recommended the use of the same product price updating formula that is currently used to update Class II prices. Use of the Ag Prices M-W was also supported by Darigold, Farmers Cooperative Creamery, Northwest Independent Milk Producers Association, and Tillamook Cooperative Creamery Association (Darigold, et al.), all of whom are additional proponents of the Ag Prices M-W. A witness representing Darigold, et al., concluded that an important element of this price series is its relative price stability compared with the current M-W price.

Opposition to the use of the Ag Prices M-W was advanced by the same organizations who opposed the adoption of the base month M-W price. The opposition cited the identical arguments for opposing the Ag Prices M-W as for the base month M-W price.

In post-hearing briefs, all of the proponents of the base month M-W price and the Ag Prices M-W reiterated the need for the adoption of a competitive pay price series as a replacement for the current M-W price. Most of the proponents of these two proposals, with the exception of Kraft, stated that the primary difference between the updated base month M-W price and the updated Ag Prices M-W was the sample size. Most of these proponents expressed a willingness to support either competitive pay price series based on the amount of milk the Department determined would be necessary to obtain an accurate estimate of the price paid for Grade B milk in Minnesota and Wisconsin.

Three other types of proposals were considered at the hearing: Product price formulas, the support price, and cost-of-production formulas. All three types of proposals received substantial opposition. One other proposal listed in the hearing notice, proposal number eight, would have established the basic formula price on wholesale prices of manufactured products. Two proponents, Lamers Dairy, Inc., and Empire Cheese, Inc., withdrew their support for this proposal. There was no other support for proposal eight during the hearing. Thus, it is considered abandoned.

The Cheese Makers proposed the adoption of a product price formula updated by a competitive pay price factor as a replacement for the M-W price, listed as proposal number seven in the hearing notice. This proposal is based on a current competitive pricing

mechanism designed to reflect the current true value for milk. This proposal would require the announcement of weekly prices based on a butter/powder/cheese formula using the most recent weekly product prices. This weekly basic formula price would be announced on Friday and would apply to the following Monday through Sunday. The weekly prices would then be used to compute a monthly average product price formula value. A competitive differential, the difference between the monthly A/B price and the average product price value, would be multiplied by 50 percent to yield a preliminary adjustor. The preliminary adjustor would be added to the monthly product price formula value to determine the calculated basic formula price. The final industry price would then be computed based on 75 percent of the difference between the competitive A/B price and the calculated basic formula price plus the blend price for the second preceding month. The intended result is a price to producers which would be more representative of the value of manufacturing grade milk.

The witness testifying on behalf of the Cheese Makers stated that their proposal would determine the true manufacturing value of milk by using a product price formula updated with a competitive pay price. The witness also testified to the need within the industry for current pricing or announcing a price on Friday of each week that could be used as a guideline for pricing milk the following week. According to the witness, current pricing is crucial to the dairy industry because the price of the raw milk used in manufacturing is unpriced when the finished product is sold.

Opposition to the Cheese Makers use of a product price formula as the basis for the basic formula price was presented by several organizations during the hearing and in post-hearing briefs. The witness representing Country Fresh, et al., stated that although product prices reflect supply and demand conditions in the marketplace, translating these into raw milk prices presents problems. According to the Country Fresh, et al., witness a product formula price has three key components: product prices, yield factors, and manufacturing allowances. Selecting the appropriate product prices, yield factors and manufacturing allowance to be used in the formula is difficult. The witness explained that there are several products and by-products of milk which can be used in a product price formula. Determining which products, and to a lesser extent