

which by-products, are included directly influences the value represented by the formula. Selecting appropriate yield factors is also difficult because these vary both seasonally and annually. Finally, establishing appropriate manufacturing allowances that vary with each plant based on the modernness of the facility, management practices, milk supplies, and product yields further complicates a product price formula. Factors that may be appropriate at one time can quickly become unacceptable, said the Country Fresh, et al., witness. Kraft's witness reiterated the points set forth by the Country Fresh, et al., witness, stating that changes in competitive milk prices do not correspond exactly with changes in product prices.

In the post-hearing brief filed by AE/SFG, three supplementary reasons for opposing the Cheese Makers proposal were presented. According to the brief, product price formulas are unable to properly fulfill market-clearing functions. In addition to the assumptions concerning which products, yield factors, and manufacturing allowances are included in the formula, the AE/SFG brief contended that product price formulas will not send producers the needed production signals to increase or decrease production as quickly as would competitive pay prices. A second issue raised by AE/SFG related to the effect of the final price adjustor. According to the AE/SFG brief, the final price adjustor provides for more current pricing for cheese manufacturers at the expense of less current pricing for fluid processors. The final issue addressed in this brief concerned the price enhancement that AE/SFG projected would occur for which they believe there is no supporting economic analysis under current supply and demand conditions. The brief filed by Country Fresh, et al., also addressed the concern that this proposal would eliminate advance pricing, a result the brief considered unacceptable.

A brief filed by Alto Dairy Cooperative (Alto) stated that the Cheese Makers proposal attempts to set the stage for a long-run solution because it moves the industry toward a pricing system that reflects the value of milk products and their milk components. Alto felt that with some simplification and revisions, this proposal could form the basis for a long-term solution. However, Alto further stated that in this proceeding the revisions needed are not possible because the proceeding does not allow for consideration of the relationship between the Class I and Class III prices.

The Minnesota Milk Producers Association and the Wisconsin Farm Bureau Federation (MMPA/WFBF) proposed replacing the M-W price with the support price (proposal number nine in the hearing notice). Four witnesses testified in support of this proposal. In addition, Lamers Dairy, Inc., and Hansen's Dairy, Inc., stated support for this proposal during the hearing.

The first witness for MMPA/WFBF testified that the adoption of the support price as the basic formula price would establish consistency between the price support program and the Federal milk order program. The witness stated that this proposal would establish easily determined minimum prices for all classes of milk and would not set an effective, or market, price. According to the witness, this proposal would allow local market over-order pricing and over-order premiums to set the price for milk, resulting in a more market-driven system.

The second witness for MMPA/WFBF elaborated on the benefit created by this proposal, as perceived by the witness, because it would decouple classified pricing from the Upper Midwest. He contended that the supply and demand situation in this area is unique because competition for manufacturing milk is driving producer pay prices year round. He described the effect of adopting the support price as a decrease in class prices where the order prices are the effective prices, and little change in markets where competition is determining the effective prices. A third witness for MMPA/WFBF reiterated these points and testified that the adoption of this proposal would guarantee that minimum order prices were not leading to disparate regional profitability levels.

The final witness for MMPA/WFBF testifying in favor of adopting the support price as the basic formula price expounded on the points advanced by the previous witnesses. The witness also reiterated that this proposal would make the Federal milk order program consistent with the price support program in pursuing the objective of minimum prices. He observed that the minimum prices in all Federal orders are linked to the M-W price, not local supply and demand conditions. Thus, he stated, these prices are impacted by supply and demand conditions in Minnesota and Wisconsin regardless of what local marketing conditions may warrant. According to the witness, minimum prices established without regard to local supply and demand conditions result in disparate regional profitability. This witness testified that the adoption of the support price may

or may not have an impact on the producer prices. If the competitive conditions of the market warrant the current price then this price would remain. If not, it would decline to the support level. He argued that adoption of the support price as the basic formula price would succeed in establishing minimum prices and thus would allow the Federal order program to establish true minimum prices.

The witness stated that Federal order prices are intended to be minimum prices. However, he stated that the extent to which the Federal order prices represent minimum prices instead of effective prices varies among the orders as is evident by the cooperative pay prices. He asserted that if the cooperative pay price is above the order minimum blend price, then local marketing conditions are establishing the effective price. However, the witness concluded, if the cooperative pay price is below the order minimum blend price, the minimum prices are too high.

Besides the brief filed by the proponents, two additional briefs were filed in support of this proposal, one by the U.S. Department of Justice (DOJ) and the second on behalf of Lamers Dairy, Inc., and Hansen's Dairy, Inc. The DOJ brief stated that the adoption of the support price as the basic formula price would establish a low minimum price which would allow market forces to play the greatest possible role in determining milk production and price. The DOJ contended that a low minimum price would not result in inadequate milk supplies or harm efficient producers, but would facilitate the transition towards a free market; would provide for more efficient industry performance; and would result in lower prices to consumers.

Substantial opposition to the adoption of the support price as the basic formula price was presented during the hearing and in post-hearing briefs. A witness representing Pennmarva Dairymen's Federation and its member cooperatives and Milk Marketing, Inc. (Pennmarva, et al.), offered extensive testimony in opposition to adopting the support price. First, the witness stated that the milk value established under the Federal order program should be based on the competitive value of milk used to produce manufactured dairy products. Since 1990, he observed, the support price of \$10.10, adjusted to 3.5 percent butterfat, has yielded a price between \$9.88 and \$9.97 per hundredweight, depending on the support price calculation. He stated that during the same period, the M-W price at 3.5 percent butterfat has ranged from \$10.02 to \$13.94 per hundredweight.