

8. Under Issue 5, paragraphs 1 and 4 are revised, paragraph 5 is replaced by two new paragraphs, two paragraphs are added after paragraph 12, paragraph 16 is revised, and two paragraphs are added at the end of Issue 5.

The material issues on the record of the hearing relate to:

1. Adoption of multiple component pricing.
2. Orders to be included.
3. Components and component prices.
 - a. Protein.
 - b. Other nonfat solids.
 - c. Butterfat.
 - d. Miscellaneous issues.
4. Somatic cell adjustment.
5. Conforming changes.

Findings and Conclusions

The following findings and conclusions on the material issues are based on evidence presented at the hearing and the record thereof:

1. *Adoption of multiple component pricing.* Proposals to incorporate multiple component pricing in the Chicago Regional (Order 30), Nebraska-Western Iowa (Order 65), Upper Midwest (Order 68), Eastern South Dakota (Order 76) and Iowa (Order 79) Federal milk marketing orders (the five orders) should be adopted, with some modifications. The pricing plan generally would be patterned after the multiple component pricing plan proposed by National All-Jersey, Inc. and other dairy organizations. Producers would be paid on the basis of the pounds of butterfat, protein and other nonfat solids (solids-not-fat other than protein) in their milk, and would share in the value of the pool's Class I and Class II uses on a per hundredweight basis. Regulated handlers would pay for the milk they receive on the basis of total butterfat, the protein and other nonfat solids used in Classes II and III, skim milk used in Class I, and the hundredweight of total product used in Classes I and II. In a modification from the recommended decision, a somatic cell adjustment, per hundredweight, would apply to the value of milk used in Classes II and III, but not in Class I, and to the value of all producer milk. The change was necessary since the record evidence as discussed later did not support including Class I.

At the present time, milk received by handlers under the five orders is priced according to the pounds of producer milk allocated to each class of use multiplied by the prices per hundredweight of milk testing 3.5 percent butterfat, as determined under the orders for each class of use. Adjustments for such items as overage, reclassified inventory, location and

other source milk allocated to Class I are added to or subtracted from the classified use value of the milk. The resulting amount is divided by the total producer milk in the pool to calculate a price per hundredweight of milk testing 3.5 percent butterfat to be paid to producers for the milk they have delivered to handlers. The price paid to each producer is then adjusted according to the specific butterfat test of the producer's milk by means of a butterfat differential. The butterfat differential is computed by multiplying the wholesale selling price of Grade A (92-score) bulk butter per pound on the Chicago Mercantile Exchange, as reported for the month by the U.S. Department of Agriculture, by 0.138 and subtracting the Minnesota-Wisconsin price (the M-W price) at test, also as reported by the U.S. Department of Agriculture, multiplied by .0028.

The multiple component pricing (MCP) plan was originally proposed for Orders 30, 68 and 79 by National All-Jersey, Inc. (NAJ), and other dairy organizations. In addition, Land O'Lakes, Inc., proposed that the multiple component plan be considered for Orders 65 and 76. Most other proposals considered at the hearing were modifications of the NAJ proposal and are discussed below.

The first NAJ witness stated that the current milk pricing system used in the five orders does not meet current marketing needs and should be replaced with a multiple component pricing system. Much of the general NAJ testimony in favor of multiple component pricing was later reiterated by witnesses expert in the field of economics and dairy chemistry testifying for NAJ, and a representative for Land O'Lakes. Also testifying in favor of the NAJ proposal were two dairy farmer members of the cooperative association Swiss Valley Farms Company, a representative of the Brown Swiss Cattle Breeders Association of U.S.A., Inc., and a representative of Tri-State Milk Cooperative. It was indicated in testimony that Alto Dairy Cooperative also supported the NAJ proposal.

The representative for the proponents said the intent of their proposal was to:

1. Use the M-W price as the base;
2. Pay all producers on four factors—pounds of butterfat, pounds of protein, pounds of other solids, and each producer's share of the fluid differential on a per hundredweight basis;
3. Leave Class I handler obligations on a skim-butterfat basis;
4. Determine Class II and III handlers' obligations on the basis of pounds of butterfat, protein, and other solids; and

5. Change only the order provisions needed to implement the NAJ proposal.

The NAJ witness said that there were five reasons for replacing the current milk pricing system with a multiple component pricing system. The first reason, according to the NAJ witness, is that the current skim-butterfat pricing system does not give dairy farmers economic incentives to produce milk high in nonfat solids, especially protein. He stated that under the current pricing system a pound of water receives the same price as a pound of protein or other solids, yet it is these solids that give milk its functional and nutritional value.

The second reason given by the NAJ witness for adopting MCP was that over a period of years much of the value of milk has shifted from butterfat to the skim portion of milk. The proponent's witness said that in 1960, butterfat represented 77% of the value of the M-W price, and skim represented 23%. By 1993, he testified, these values were reversed, with butterfat representing only 23% of the value of the M-W, while the skim portion of the milk represented 77%.

According to the NAJ witness, the shift in value from butterfat to skim was partially caused by the USDA decision to decrease the support price for butter and increase the support price for nonfat dry milk. The support price for butter declined from \$1.53 per pound in 1981 to 65¢ per pound in 1993, with most of the decrease occurring since 1989. Nonfat dry milk purchase prices under the support program increased from 72.75¢ per pound in 1988 to \$1.034 per pound in 1993. In addition, the witness said, the butterfat differential under Federal orders has been dropping since the mid-1980s because of a decline in the market price for butter. This drop was accelerated by a change in the method of computing the butterfat differential, implemented in 1990, that had the impact of reducing the butterfat differential even more.

The third reason the witness gave for implementing multiple component pricing was the shift in types of dairy products consumers are purchasing. According to the witness, some of the decline in butterfat value relative to skim value has been caused by a shift in consumption from whole milk to lowfat and skim fluid milk products. The witness presented data to show that from 1970 to 1991, national fluid milk sales of lowfat and skim milk increased 232%, while sales of whole milk declined 50%. In addition, he stated, consumption of lowfat manufactured products is growing faster than