Pre-Hearing Workshop

August 14, 2007 - 9:00 a.m.

In Preparation for the August 28, 2007 Hearing

I. Call to Order – Dave Ikari

II. Statement of Purpose for Workshop – Dave Ikari

III. Proposal Petitioners

- a. Western United Dairymen
- b. Milk Producers Council

IV. Alternative Proposal Explanations:

- a. Dairy Institute of California
- b. Alliance of Western Milk Producers

V. CDFA Background Materials

VI. CDFA Summary and Analysis of Proposals

VII. Adjourn

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CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

SUMMARY OF PROPOSALS

August 14, 2007 Workshop
In Preparation for the August 28, 2007 Hearing

Currently, on both a weekly and monthly basis, the Department receives and audits survey information through sales reports of nonfat dry milk (NFDM) from California processing plants. Presently, the sales reports include all types of Extra Grade and Grade A NFDM sold to wholesale customers for human consumption, regardless of length of storage, container size or sales volume. The reported types of NFDM include low-, medium-, and high-heat, organic, and rBST-free powders; however, the reports exclude sales of other powdered milks such as instant NFDM, whole milk powder, skim milk powder, and skim milk powder blends. In addition, all types of sales are included in the reports, such as spot market sales, long-term and short-term contract sales consisting of fixed or indexed prices, and government sales to the Commodity Credit Corporation (CCC). There are some sales that are excluded from the reports, specifically inter-company sales to other plants that belong to the same organization or coop as the reporting plant.

Currently, the Class 4a pricing formula and the Commodity Reference Price used by the Class 1 pricing formula utilizes the weighted average price per pound for all Grade A and Extra Grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants.

This workshop addresses proposed revisions to both the NFDM sales reports (including changes to the approved types of NFDM currently reported and/or the type of sales currently reported), and revisions to the NFDM price series used directly in the Class 1 and Class 4a pricing formulas.

PROPOSALS:

Western United Dairymen

Proposed Changes to the ***"Weekly"*** NFDM Sales Report:

- Specify: Only those contracted sales that are shipped no more than 90 days from the date of contract execution shall be included.

Proposed Changes to the ***"Monthly"*** NFDM Sales Report:

- Specify: Only those contracted sales that are shipped no more than 90 days from the date of contract execution shall be included.

Milk Producers Council

Proposed changes to the method used to determine the market value of nonfat dry milk used in the Class 4a formulas and in the Commodity Reference Price of the Class 1 pricing formula:

- Class 1 Pricing Formula: Use the two most recent weekly, simple average of the "Nonfat Dry Milk – West Mostly" prices as published in the Dairy Market News available on the 10th day of the previous month

- Class 4a Pricing Formula: Use the simple average of the "Nonfat Dry Milk – West Mostly" prices as published in the Dairy Market News between the 26th day of the previous month to the 25th day of the current month. (If not available, use the prior month's "Nonfat Dry Milk – West Mostly" price calculation

ALTERNATIVE PROPOSALS:

Dairy Institute of California

Proposed Changes to the ***"Weekly"*** NFDM Sales Report:

- Specify:

  Sale: When a transaction is completed (for example: nonfat dry milk is ``shipped out'' and title transfer occurs.) Sales are for USDA Extra Grade and USPH Grade A, non-fortified, nonfat dry milk.

  Price: Price is f.o.b. processing plant/storage center. Prices and quantities are for all 25 kilogram bag, 50 pound bag, tote and tanker sales.

  Include: Nonfat dry milk manufactured using low or medium heat process, CCC purchases under the Dairy Price Support and related programs, and CME sales by initial manufacturer.

  Exclude: Sales of nonfat dry milk more than 180 days old, nonfat dry milk manufactured using high heat process, sales of instant nonfat dry milk, sales of dry buttermilk products, transportation and clearing charges, intra-company sales, resales of purchased nonfat dry milk and forward pricing sales (sales in which the selling prices was set (not adjusted) 30 or more days before the transaction was completed). This exclusion does not include sales through the Dairy Export Incentive Program (DEIP).

Proposed Changes to the ***"Monthly"*** NFDM Sales Report:

- Specify:

  Sale: When a transaction is completed (for example: nonfat dry milk is ``shipped out'' and title transfer occurs.) Sales are for USDA Extra Grade and USPH Grade A, non-fortified, nonfat dry milk.

  Price: Price is f.o.b. processing plant/storage center. Prices and quantities are for all 25 kilogram bag, 50 pound bag, tote and tanker sales.

  Include: Nonfat dry milk manufactured using low or medium heat process, CCC purchases under the Dairy Price Support and related programs, and CME sales by initial manufacturer.

  Exclude: Sales of nonfat dry milk more than 180 days old, nonfat dry milk manufactured using high heat process, sales of instant nonfat dry milk, sales of dry buttermilk products, transportation and clearing charges, intra-company sales, resales of purchased nonfat dry milk and forward pricing sales (sales in which the selling prices was set (not adjusted) 30 or more days before the transaction was completed). This exclusion does not include sales through the Dairy Export Incentive Program (DEIP).

Alliance of Western Milk Producers

Proposed Changes to the ***"Weekly"*** NFDM Sales Report:

- Specify:

  Exclude: Nonfat dry milk products derived from organically produced milk.

Proposed Changes to the ***"Monthly"*** NFDM Sales Report:

- Specify:

  Exclude: Nonfat dry milk products derived from organically produced milk.

California Nonfat Dry Milk

Background

Since 1973, the California Department of Food and Agriculture (Department) has utilized sales reports to collect data from California processing plants producing nonfat dry milk (NFDM). On both a weekly and monthly basis, the Department receives and audits sales of NFDM. Using the sales data from all reporting processing plants, the Department then computes a weighted average price of NFDM called the California Weighted Average Price (CWAP). The CWAP is one of the commodity prices that are used directly in the Class 1 and Class 4a pricing formulas.

Presently, the sales reports include all types of Extra Grade and Grade A NFDM sold to wholesale customers for human consumption, regardless of length of storage, container size or sales volume. The reported types of NFDM include low-, medium-, and high-heat, organic, and rBST free powders; however, the reports do exclude sales of other powdered milks, including fortified NFDM, instant NFDM, whole milk powder, skim milk powder and skim milk powder blends. Additionally, all types of sales are included in the reports. These sales include spot market sales, short- and long-term contracted sales consisting of fixed or indexed prices, and government sales to the Commodity Credit Corporation (CCC). There are some sales that are excluded from the reports, specifically inter-company sales to other plants that belong to the same organization or coop as the reporting plant.

The methodology of the auditing procedure has been essentially the same since 1973, except for a change that occurred in 1996. Prior to 1996, if the total weekly or total monthly weighted average NFDM price sold and reported by an individual processing plant was below the federal support purchase price offered through the CCC, then the reported price of the plant was increased or adjusted upward to the level of the federal support purchase price for the calculation of the CWAP. By making this adjustment, all of the weighted average prices of NFDM sales by all reporting plants considered in the CWAP would be at least at the level of the federal support purchase price. However, after the change in 1996 to the present, the calculated CWAP includes reported prices exactly as they are reported without upward adjustment, even if the reported price is below the federal support purchase price. Therefore, all NFDM prices in the current sales reports are considered at their reported price in the calculation of the CWAP.

Current Issues

In the beginning of 2007, NFDM prices and reporting procedures became an issue in the dairy industry because of differences in the price of NFDM among various price series. On average, between 2002 and 2006, the CWAP, the

NASS NFDM price that is used in the Federal Class IV pricing formula, and the Dairy Market News Western-Mostly (DMN) NFDM price remained within three cents per pound of each other. For the same time period, the Oceania Skim Milk Powder averaged as much as 30 cents below to 10 cents above the other three price series.

However, starting in late 2006 through the beginning of 2007, there began to be divergence among the different price series. While the NASS and CWAP prices stayed within 5 cents of each other from October 2006 to March 2007, the DMN and Oceania prices increased rapidly above the CWAP and the NASS. Relative to the CWAP and NASS prices, the Oceania price increased from 15 cents higher in October 2006 to 35 cents higher in March 2007. Similarly, the DMN price increased from 5 cents higher in October 2006 to 15 cents higher in 2007. Because of these relative changes in the price series, many in the dairy industry began to question whether the NASS and CWAP prices were reflective of actual market conditions for NFDM.

Shortly thereafter, USDA undertook a review of the NASS NFDM survey procedure and discovered that not all reporting plants were following their required procedures. As a result, revisions were made and the NASS price then converged with the DMN and Oceania prices. Given that the auditing procedures for the CWAP differ from the survey procedure of NASS, the CWAP price continued to remain below the other prices until June 2007.

In light of the differences in the NASS and CWAP procedures, the dairy industry compared the two procedures in order to determine the cause(s) of the difference in the two price series. One important difference between the survey procedures of NASS and the auditing procedure of the Department is the inclusion of long-term contracted sales by the Department and the exclusion of such sales by NASS. Because long-term contracted sales can carry a lower price relative to the other types of sales, these sales can influence the CWAP causing it to be lower than the NASS price. Another difference between the CWAP and the NASS NFDM price is the inclusion of high-heat NFDM in the CWAP price and its exclusion in the NASS price.

During the spring of 2007, members of the industry initiated discussion regarding the CWAP and the auditing procedures used by the Department to establish the CWAP. Customarily, the NFDM sales reports and the procedures used by the Department to collect and audit NFDM sales information to establish the CWAP are a result of input from the California dairy industry. The Department has historically held informal industry meetings in order to discuss and initiate changes to the procedure. Accordingly, there was an industry meeting to discuss this issue on May 16, 2007, and also further discussion during the Dairy Advisory Council meeting on May 31, 2007.

Upcoming Hearing

On June 15, 2007, Western United Dairymen (WUD) petitioned the Department for a public hearing to revise the weekly and monthly NFDM sales reports. In their petition, WUD recognized that revisions to the sales reports can be done in an informal, administrative fashion rather than through the formal public hearing process; however, WUD opined that the discussion of this issue at the industry meetings cited above, lacked the disclosure of information necessary to arrive at the best resolution. Therefore, WUD sought to pursue this issue through the hearing process. Shortly thereafter on June 18, 2007, Milk Producers Council (MPC) petitioned the Department for a public hearing to amend the Stabilization Plans by replacing the CWAP with a NFDM price series published in the Dairy Market News. Because the MPC petition proposes an amendment to the Stabilization Plans, the formal hearing process would be necessary in order to consider and implement this type of proposed amendment.

On June 29, 2007, the Department called a public hearing for August 28, 2007, to consider not only the MPC proposed amendments to the Stabilization Plans and the WUD proposed revisions to the NFDM sales reports, but also any other alternative proposals received by July 31, 2007. The Department received two alternative proposals, one by The Alliance of Western Milk Producers (Alliance) and the other by Dairy Institute of California (Institute). The Alliance proposes one change to the current NFDM sales reporting procedure, which is to exclude the sales of organic NFDM. The Institute proposes the Department follow the NFDM sales report specifications that were recently set forth in the recent interim final rule from USDA's Agricultural Marketing Service for Dairy Product Mandatory Reporting Program. Specifically, the Institute proposes to adjust the Department's current reporting procedure by excluding the sales of NFDM older than 180 days, excluding high-heat NFDM, and excluding forward pricing sales or contracted sales where the sale price is set (not adjusted) 30 or more days prior to the transaction completion. Additionally, the Institute proposes to adjust the Department's current reporting procedure by limiting quantities of NFDM reported to 25 kilogram bags, 50 pound bags, totes, and tanker sales.

Background on Exports and Contracts[1]

As companies try to expand their customer base, they often pursue global markets. Indeed, selling overseas can be an advantageous activity, however, sales outside the country also involve many steps that lengthen the marketing process. This process can vary greatly depending on the product exported and the country of destination, as government requirements can differ.

First, for any given agricultural product, companies need to research, plan and make critical decisions as they face many competitors from around the world and they need to make sure they can be competitive. As outlined by the Foreign Agricultural Service (FAS) of the USDA, the following steps are the most common:

- Identify Available Resources
- Identify Target Markets
- Develop and Commit to an Export Plan
- Identify Market Entry Requirements
- Visit the Market
- Find Buyers for Your Product
- Identify Funding Programs

Companies in the dairy industry who want to export are no exception to this process. Once they have targeted a specific country and product, they can find the information about the precise requirements of the destination country on the U.S. Dairy Export Council (USDEC) website. Those will include:

- Tariff rate and quotas
- Health Certification & Inspection Requirements
    - License permits, sanitation certificates, pre-inspection requirements, animal health certificates
- Labeling & Product Standards
    - Composition (ingredients, fat content, etc), additive, microbial and packaging requirements
- Codex Alimentarius Standards
    - Internationally endorsed standards for milk and milk products used by WTO to resolve international trade dispute

Among dairy exports, milk powder is a product that is highly traded around the world. The biggest markets for U.S. powder are Mexico, Indonesia and the Philippines. The following table shows a summary of the most important U.S. export markets.

Top 10 U.S. export markets, Skim milk powder (MT)

Country	2002	2003	2004	2005	2006
Mexico	49,500	57,427	90,178	106,166	65,873
Indonesia	3,515	7,040	19,023	23,430	36,265
Philippines	3,725	13,825	22,803	22,522	33,332
Malaysia	3,665	640	11,455	14,179	19,034
Vietnam	801	780	10,383	16,591	16,014
Egypt	107	0	3,474	3,393	15,409
China	2,240	1,688	5,222	4,979	13,960
Algeria	0	559	2,768	9,460	13,042
Singapore	1,195	603	4,757	5,495	6,977
EC 15	521	566	9,231	1,594	6,435

Source: USDEC export trade data, 2007

[1] Information gathered from July 12 to July 26, 2007.

To give a more specific example of the requirements for companies exporting products, the case of exports to Mexico, the biggest U.S. market for skim milk powder, is observed. Below is a (non-exhaustive) list of what is required.

- Register in the Importers Rosters at the Tax Administration Service
- Fill out a "Pedimento de importacion." This document indicates the customs procedure under which the merchandise will be imported and must be accompanied by:
    - Commercial invoice. The invoice should be in Spanish. If it is not, a translation must be attached. The invoice should include the shippers and sellers addresses, along with the delivery and buyers addresses, the description of the goods and numbering and marking.
    - Packaging list (when more than one package). Includes weights and volumes of each package.
    - Bill of Lading or Airway Bill of Lading, endorsed by the transport company. This states the quantity, marking, volume and description of the goods.
    - Documents required in order to comply with specific regulations (e.g sanitary requirements, product composition regulations, etc), applicable to that particular product.
    - Certificate of Origin
    - Import permits (required for agricultural products vital to Mexico's economy)
    - If applicable, the document demonstrating guarantee of payment of additional amounts that may arise if the declared value is less than the estimated price established by the Mexican government for merchandise which has been undervalued.
- Meet product labeling requirements
- For 2007, Tariff Rate Quota (TRQ) = 58,742 (MT) ; Over quota tariff = 11.8%.

The above information can be found on the Secretaria de Economia at *http://www.nafta-mexico.org/ls23al.php?s=200&p=3&l=2* . Tariff information is from FAS, *Mexico; Dairy and Products*, Gain Report 2005.

As mentioned above, requirements can vary depending on the country of destination and the product. However, some broad conclusions[2] can be made about dairy exports. Regarding the time frames and required certifications:

- The average time to process exports would be from two weeks to one month.
- Any time a country asks for a specific certification, it adds time to the process.
- All required documents need to be ready when the products are loaded. If they are not, the products will have to wait and the shipper faces losses.
- In order to stay competitive, U.S. dairy exporters need competitive prices and quality. But they also should honor their agreements with the importers, hence the need to have all the required documents ready when it is time to ship.

The above information is valid for commodity as well as higher value products (i.e organic, rBST-free, high heat, etc.). Unfortunately, export data does not disaggregate the two categories so numbers are not available separately. However, some differences can still be observed:

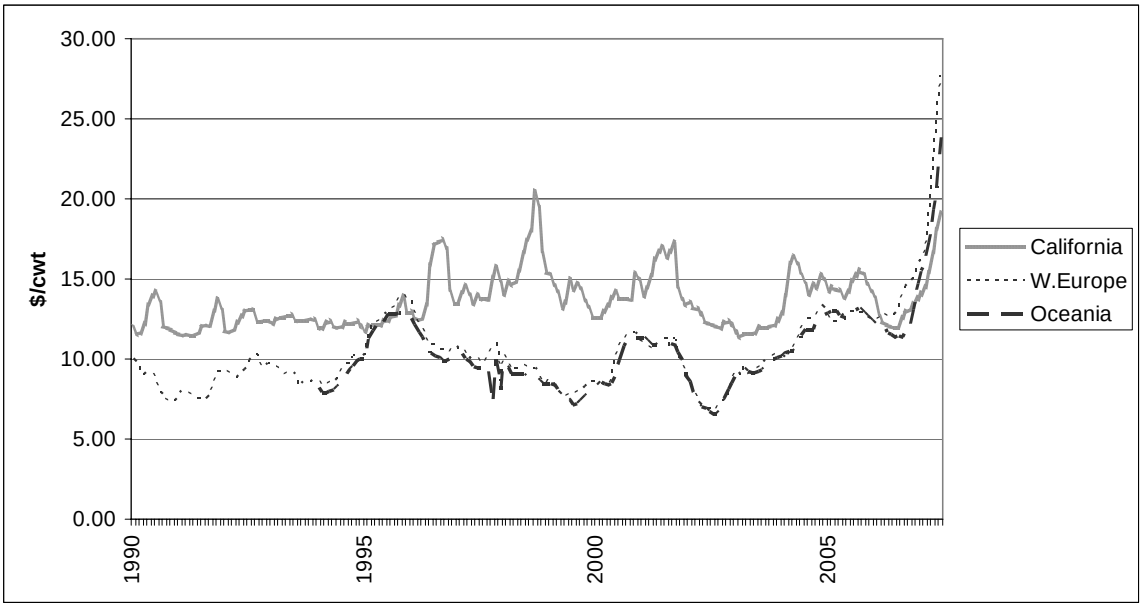
- To market a product for its higher value, companies need to be able to prove the high value of the product. This process usually adds time to the certification as more documentation is required. This needs to be done efficiently in order to stay competitive.

[2] Information from Matt McKnight, Vice President of Export Ingredients, Marketing and Industry Affairs, USDEC.

- Some countries will not accept certain products (i.e. rBST) so that is another reason why the high value products and commodities are not separated in export data.

Finally, exports can be a great opportunity for dairy companies as long as they stay competitive. The following figure shows how California prices compare with Western Europe and Oceania, 1990 to the present.

Butter and NFDM price (no MCA) comparison, 1990-2007



Sources: NASS, CME, International Dairy Market News, 1990-2007.

Another dimension of interest in dairy sales is contracts. More specifically, when it comes to exports, is it usually long-term contracts? And if so, are they useful? As Matt McKnight (USDEC) explains, the data regarding the length of the contracts is not available. The only way to find out some average would be to gather the information from every supplier individually. However, some trends can be observed:

- Buyers prefer long-term contracts, usually from 6-9 months. Some even prefer a year.
- The lower price producer is the Oceania region and they are seasonal. Buyers can believe they will get a better price at the beginning of the season so the typical contracts are 9 months to assure a constant price.
- The U.S. has the Commodity Credit Corporation (CCC); the European Union has stock intervention (stopped at the moment), but Oceania has no program, so they have to sell, leading them to do fixed price contracts. The U.S. also does fixed price contracts because large buyers prefer that.

Contracts have also drawn researchers' attention. Below is a list of sample publications related to the topic, including a short summary of the authors' findings.

- *Introduction to cheese and nonfat dry milk futures*. Cropp, Robert and Mark Stephenson. Dairy Market and Policy, Issues and Options. February, 1995.
    - Futures contract → commitment to either accept or make delivery of a specified quantity and quality of a commodity at a specified time.
    - Futures markets exist to provide a means for shifting the risk of price change on the cash market.

    - Main characteristic of a commodity successfully traded on the futures market is one characterized by variable market prices.
- *Long Term Contracts in International Trade*. Amann, Erwin and Dalia Marin. Center for Economic Policy Research Discussion papers. April 1990.
    - Countertrade agreement → exporter agrees to buy in the future from the importer, commodities proportional to his original sale.
    - Allows the forward selling of commodities where no organized futures market exists.
- *Contracts as a Barrier to Entry.* Aghion, Philippe and Patrick Bolton. American Economic Review. June 1987.
    - "An incumbent seller who faces a threat to entry into his or her market will sign long-term contracts that prevent the entry of some lower-cost producers even though they do not preclude entry completely."
- *World Market Prices.* From: *World Agriculture, Toward 2010: An FAO Study*. FAO Corporate Document Repository. 1995.
    - "There has been the development in trading techniques that offer exporting countries new ways to counter the fluctuations in their commodity prices. These include long-term contracts with fixed prices, forward contracts, the use of options or hedge prices through commodity exchanges, over-the-counter markets and the use of swaps and commodity-linked bonds. As noted before, however, despite the usefulness of these various instruments to lessen the risk deriving from price fluctuations, they are unlikely to address the more fundamental factors underlying the long-term decline of prices of some agricultural commodities."
- *Forecasting Class III and Class IV Milk Prices.* Jesse, Ed and Jacob Schuelke. U.W-M Staff paper no.453. September 2002.
    - "Soft manufactured dairy products and Mozzarella cheese are more likely to be manufactured under contract than cheddar cheese, butter, or nonfat dry milk. In general, Class III dairy products (hard cheeses) and Class IV products (butter and nonfat dry milk) have the lowest call on the milk supply – that is, these storable products tend to buffer milk supply and demand. More of these products are produced when milk supplies are large relative to demand and less when supplies are relatively short. Consequently, seasonal variation in production is relatively large."

<u>Additional resources on exports and milk powder</u>

→ Dairy Management Inc.
- NFDM Compositions and Varieties
- www.innovatewithdairy.com

→ USDEC
- Industry overview, US standards, Powder categories and their definitions
- <u>www.usdec.org</u>

→ *Testimony on Cost of Processing in Cheese, Whey, Butter and Nonfat Dry Milk Plants*. Mark Stephenson, July 9, 2007.
- Breakdown of Nonfat Dry Milk processing costs in the U.S. (outside of California).

→ Dairy Export Incentive Program (DEIP)
- "USDA pays cash to exporters as bonuses, allowing them to sell certain U.S. dairy products at prices lower than the exporter's costs of acquiring them. The major objective of the program is to develop export markets for dairy products where U.S. products are not competitive because of the presence of subsidized products from other countries."

- DEIP allocations of 68,201 metric tons of nonfat dry milk, 21,097 tons of butterfat and 3,030 tons of various cheeses may be made available through Invitations for Offers. These allocations correspond to the total World Trade Organization (WTO) limits for this year's DEIP.
- Latest NFDM allocation: Nonfat Dry Milk : -- Invitation No. GSM-511A-55 (effective August 15, 2003) -- Amendment 1 Invitation No. GSM 511A-55 (effective January 5, 2004).
- http://www.fas.usda.gov/excredits/deip/deip-new.asp

→ Cooperatives working together (CWT)
- CWT accepts bids from member organizations to export various cheese and butter products, and awards export bonuses based on the lowest bid prices. Whole milk powder is also eligible.
- Sales of eligible products may be in retail-type packaging; however, the amount of assistance CWT provides will be based on product volume (bulk rate) not on the value of the product.
- http://www.cwt.coop/action/action_exports.html

→ World Trade Organization (WTO)
- World Tariff Profiles (Summary of every countries major tariff and imports by product groups and major export partners and duties faced).
- World Trade Profiles (Summary of countries' exports and imports, average tariffs and main categories)
- www.wto.org

→ Foreign Agricultural Service (FAS)
- Information available on commodity trends.
- "Forecast 2007: NDM markets in 2007 are expected to remain tight as exports from major exporting countries, i.e., New Zealand, Australia, EU-25, and the United States, are forecast to drop by 1 percent while imports in selected countries are expected to rise. U.S. exports are forecast to continue expanding –up 2 percent in 2007 – ensuring the United States remains as the major supplier of NDM to world markets. Key import markets in Asia, such as China, Indonesia, and Philippines are likely to continue growing due to strong economic growth promoting increased consumption. In contrast, Mexican imports of NDM are expected to decline. Trade figures in 2006 indicate that Mexican imports of NDM through September, 2006 are down one third over the previous year. For 2007, imports are projected to decline due to an increased domestic supply of milk and pressure on the Mexican Government by domestic producers to reduce imports".(Dairy: World Markets and Trade, 2006).
- http://www.fas.usda.gov/psdonline/

SUMMARY ANALYSIS OF ESTIMATED IMPACT OF A PROPOSED NONFAT DRY MILK (NFDM) PRICE SERIES ON CALIFORNIA CLASS AND POOL PRICES

For August 14, 2007 Workshop

In Preparation for the August 28, 2007 Hearing

The proposed changes by Western United Dairymen (WUD), Dairy Institute (Institute), and the Alliance of Western Milk Producers (Alliance) would generate new California Weighted Average Prices (CWAP). Unfortunately, all the data needed to perform an objective analysis on these proposed changes was not available.

Since the Milk Producers Council (MPC) proposal involves replacing the CWAP price with a Dairy Market News price series and this data is available, an impact analysis was performed. The results are reflected in the following tables.

Executive Summary

Table 1 - **Estimate of Impact of Proposed NFDM Price Series (DMN-West)**

Estimated Class and Pool Prices using Proposed DMN-West NFDM Price Series less Current Class and Pool Prices using historic commodity prices, estimates assume that the current and alternative formulas had been in effect from January 2002 through December 2006, Five-Year Averages: 2002-2006
(Dollars per Hundredweight)

Proposed Price Series	Class 4a	Classes 2 & 3	Class 1	Quota & Overbase
DMN-West [1/]	$0.100	$0.081	$0.005	$0.033

[1/] Pricing series proposed by Milk Producers Council.

DMN-West: the simple average of the mostly price for Western NFDM as reported by Dairy Market News

Please Note: Historic price comparisons are not necessarily a good predictor of future prices.

ESTIMATED IMPACT OF A PROPOSED NONFAT DRY MILK (NFDM) PRICE SERIES ON CALIFORNIA CLASS AND POOL PRICES

- Table 2 shows the impacts of replacing the CWAP with proposed Dairy Market News West (DMN-West) price series for NFDM on class and pool prices relative to current prices from January 2002 through July 2007.
- The analysis assumes that the current class pricing formulas were in effect throughout the analysis period.

Table 2 - **Class and Pool Prices using Proposed NFDM Price Series less Current Class and Pool Prices**
Using historic commodity prices, estimates assume that the CWAP and the DMN-West price series for NFDM had been in effect from January 2002 through July 2007
Annual and Five-Year Averages: 2002-2006, Monthly prices for January to July 2007.
(Dollars per Hundredweight)

Class 4a	2002	2003	2004	2005	2006	5-Year Average	Jan 2007	Feb 2007	Mar 2007	Apr 2007	May 2007	Jun 2007	Jul 2007
DMN-West	$0.03	$0.02	$0.03	$0.18	$0.23	$0.10	$0.66	$1.15	$1.59	$2.45	$3.93	$5.43	$3.36
Classes 2 & 3													
DMN-West	$0.03	$0.03	$0.03	$0.16	$0.15	$0.08	$0.68	$0.64	$0.64	$1.37	$1.37	$3.19	$3.19
Class 1													
DMN-West	$0.01	$0.00	$0.01	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.05	$0.89	$0.60	$0.92
Pool Prices: Quota and Overbase													
DMN-West	$0.01	$0.01	$0.01	$0.06	$0.07	$0.03	$0.22	$0.36	$0.47	$0.77	$1.25	$1.74	$1.26

Historic U.S. Nonfat Dry Milk (NFDM) Prices and World Skim Milk Powder (SMP) Prices

Name on Table	Description	Source
USDA SPP NFDM 26th-25th	U.S. Federal Support Purchase Prices (SPP) 26th prior month to 25th current month	Dairy Market News (DMN)
USDA NASS NFDM 4 or 5 Weeks	U.S. Federal National Agricultural Statistics Service (NASS) Weighted Average Prices 4 or 5 weeks prior to 5th of following month	Agricultural Marketing Services
CWAP NFDM 26th-25th	California Weighted Average Prices (CWAP) 26th prior month to 25th current month	California Department of Food and Agriculture
DMN Western Low Medium SAM NFDM 26th-25th	Western U.S. Simple Average of Mostly (SAM) Prices 26th prior month to 25th current month	Dairy Market News
DMN Central Low Medium SAM NFDM	Central U.S. Simple Average of Mostly (SAM) Prices	Dairy Market News
Western Europe SMP	Western European Prices for Skim Milk Powder	Dairy Market News
Oceania SMP	Oceania Prices for Skim Milk Powder	Dairy Market News

Various NFDM/SMP Prices, Monthly and Annual Averages, 2002 to 2007

		USDA SPP	USDA NASS	Revised NASS	CWAP	DMN Western Low Medium SAM	DMN Central Low Medium SAM	Western Europe	Oceania
	MONTH	NFDM 26th-25th	NFDM 4 or 5 Weeks	NFDM 4 or 5 Weeks	NFDM 26th-25th	NFDM 26th-25th	NFDM	SMP	SMP
		($/lb)	($/lb)	($/lb)	($/lb)	($/lb)	($/lb)	($/lb)	($/lb)
2002	January	0.9000	0.9161		0.9054	0.9138	0.9514	0.7159	0.7295
	February	0.9000	0.9121		0.9031	0.9113	0.9421	0.6804	0.6719
	March	0.9000	0.9060		0.9016	0.9075	0.9246	0.5942	0.6180
	April	0.9000	0.8975		0.9013	0.9031	0.8830	0.5783	0.5925
	May	0.9000	0.8972		0.8997	0.8980	0.8911	0.5670	0.5727
	June	0.9000	0.9005		0.8996	0.8953	0.8984	0.5670	0.5613
	July	0.9000	0.9033		0.8993	0.8988	0.9127	0.5670	0.5462
	August	0.9000	0.9074		0.9003	0.9018	0.9311	0.5500	0.5443
	September	0.9000	0.9096		0.9022	0.9044	0.9486	0.5727	0.5727
	October	0.9000	0.9165		0.9061	0.9060	0.9550	0.5698	0.6209
	November	0.8467	0.9177		0.9101	0.9091	0.9597	0.6180	0.6804
	December	0.8000	0.8682		0.8594	0.8750	0.9420	0.7241	0.7144
2003	January	0.8000	0.8207		0.8122	0.8270	0.8557	0.7957	0.7749
	February	0.8000	0.8111		0.8035	0.8081	0.8258	0.7796	0.7995
	March	0.8000	0.8051		0.8030	0.8041	0.8304	0.7671	0.7938
	April	0.8000	0.8030		0.8021	0.8028	0.8247	0.7581	0.7825
	May	0.8000	0.8040		0.8008	0.8013	0.8225	0.7825	0.7711
	June	0.8000	0.8040		0.8023	0.8013	0.8200	0.7768	0.7711
	July	0.8000	0.8072		0.8031	0.8013	0.8292	0.7739	0.7711
	August	0.8000	0.8105		0.8016	0.8069	0.8425	0.7791	0.7711
	September	0.8000	0.8111		0.8034	0.8075	0.8513	0.8023	0.7881
	October	0.8000	0.8109		0.8053	0.8075	0.8513	0.8182	0.8165
	November	0.8000	0.8130		0.8093	0.8075	0.8513	0.8199	0.8165
	December	0.8000	0.8070		0.8055	0.8085	0.8477	0.8386	0.8221
2004	January	0.8000	0.8062		0.8023	0.8047	0.8361	0.8193	0.8306
	February	0.8000	0.8064		0.8015	0.8025	0.8325	0.8066	0.8392
	March	0.8000	0.8101		0.8038	0.8038	0.8339	0.8505	0.8392
	April	0.8000	0.8171		0.8116	0.8160	0.8513	0.8505	0.8392
	May	0.8000	0.8383		0.8218	0.8463	0.8853	0.9044	0.8845
	June	0.8000	0.8497		0.8333	0.8490	0.8983	0.9526	0.9299
	July	0.8000	0.8513		0.8356	0.8459	0.8859	0.9866	0.9526
	August	0.8000	0.8584		0.8437	0.8413	0.8623	0.9817	0.9526
	September	0.8000	0.8639		0.8457	0.8423	0.8274	0.9928	0.9526
	October	0.8000	0.8565		0.8476	0.8381	0.8375	1.0178	0.9866
	November	0.8000	0.8570		0.8478	0.8420	0.8718	1.0728	0.9979
	December	0.8000	0.8713		0.8663	0.8756	0.8757	1.0637	0.9979
2005	January	0.8000	0.8906		0.8801	0.8900	0.8999	1.0093	1.0055
	February	0.8000	0.8990		0.8865	0.9140	0.9362	0.9866	1.0093

Various NFDM/SMP Prices, Monthly and Annual Averages, 2002 to 2007

	MONTH	USDA SPP NFDM 26th-25th ($/lb)	USDA NASS NFDM 4 or 5 Weeks ($/lb)	Revised NASS NFDM 4 or 5 Weeks ($/lb)	CWAP NFDM 26th-25th ($/lb)	DMN Western Low Medium SAM NFDM 26th-25th ($/lb)	DMN Central Low Medium SAM NFDM ($/lb)	Western Europe SMP ($/lb)	Oceania SMP ($/lb)
	March	0.8000	0.9083		0.8946	0.9256	0.9521	0.9837	1.0093
	April	0.8000	0.9156		0.9007	0.9356	0.9593	1.0093	0.9979
	May	0.8000	0.9289		0.9109	0.9475	0.9767	1.0376	0.9866
	June	0.8000	0.9259		0.9048	0.9403	0.9850	1.0660	0.9979
	July	0.8000	0.9389		0.9201	0.9294	0.9888	1.0660	1.0093
	August	0.8000	0.9601		0.9374	0.9434	0.9987	1.0622	1.0282
	September	0.8000	0.9705		0.9500	0.9593	1.0025	1.0433	1.0348
	October	0.8000	0.9794		0.9682	0.9813	1.0242	1.0404	1.0206
	November	0.8000	0.9835		0.9724	0.9990	1.0470	1.0093	1.0149
	December	0.8000	0.9899		0.9743	0.9897	1.0481	0.9922	0.9866
2006	January	0.8000	0.9614		0.9359	0.9734	1.0038	0.9922	0.9809
	February	0.8000	0.8833		0.8737	0.8858	0.9086	1.0149	0.9866
	March	0.8000	0.8697		0.8480	0.8272	0.8491	1.0376	0.9752
	April	0.8000	0.8429	0.8418	0.8363	0.8113	0.8413	1.0319	0.9469
	May	0.8000	0.8288	0.8246	0.8173	0.8094	0.8338	1.0404	0.9412
	June	0.8000	0.8221	0.8199	0.8063	0.8090	0.8423	1.0716	0.9299
	July	0.8000	0.8300	0.8339	0.8149	0.8191	0.8654	1.1094	0.9412
	August	0.8000	0.8484	0.8532	0.8329	0.8543	0.9538	1.2145	0.9526
	September	0.8000	0.8537	0.8689	0.8383	0.9094	1.0046	1.2729	0.9866
	October	0.8000	0.9027	0.9111	0.8676	0.9525	1.1807	1.2956	1.0263
	November	0.8000	0.9837	0.9958	0.9224	0.9938	1.4114	1.3154	1.1227
	December	0.8000	1.0225	1.0496	0.9762	1.0466	1.3116	1.3750	1.2814
2007	January	0.8000	1.0677	1.1120	1.0266	1.1025	1.2751	1.4099	1.3532
	February	0.8000	1.1021	1.1740	1.0702	1.2025	1.3019	1.4799	1.4232
	March	0.8000	1.1902	1.2595	1.1353	1.3181	1.4168	1.6528	1.5422
	April	0.8000	1.4354	1.4363	1.2574	1.5384	1.6276	2.0185	1.7463
	May	0.8000	1.6670		1.3753	1.8273	1.9314	2.2430	1.9051
	June	0.8000	1.9012		1.4727	2.1140	2.1750	2.3315	2.1773
	July	0.8000	2.0180		1.8065	2.1982	2.1860	2.4003	2.3436
2002	Average	0.8872	0.9043		0.8990	0.9020	0.9283	0.6087	0.6187
2003	Average	0.8000	0.8090		0.8043	0.8070	0.8377	0.7910	0.7899
2004	Average	0.8000	0.8405		0.8301	0.8339	0.8582	0.9416	0.9169
2005	Average	0.8000	0.9409		0.9250	0.9463	0.9849	1.0255	1.0084
2006	Average	0.8000	0.8874		0.8642	0.8910	1.0005	1.1476	1.0059
2007	1st 7 months	0.8000	1.4831		1.3063	1.6144	1.7020	1.9337	1.7844

DAIRY MARKET NEWS PRICES FOR WESTERN NFDM

Simple Average of the Mostly Weekly Prices, 26th to 10th Prices, and 26th to 25th Prices, December 2001 to July 2007

Weeks Ending 2002	Weekly Price	26th to the 10th Avg. Price [1/]	26th to the 25th Avg. Price [2/]	Weeks Ending 2003	Weekly Price	26th to the 10th Avg. Price	26th to the 25th Avg. Price	Weeks Ending 2004	Weekly Price	26th to the 10th Avg. Price	26th to the 25th Avg. Price	Weeks Ending 2005	Weekly Price	26th to the 10th Avg. Price	26th to the 25th Avg. Price	Weeks Ending 2006	Weekly Price	26th to the 10th Avg. Price	26th to the 25th Avg. Price	Weeks Ending 2007	Weekly Price	26th to the 10th Avg. Price	26th to the 25th Avg. Price
28-Dec	0.9188																						
4-Jan	0.9125	0.9156		3-Jan	0.8350			2-Jan	0.8088			7-Jan	0.8900	0.8875		6-Jan	0.9613	0.9775		5-Jan	1.1200	1.0900	
11-Jan	0.9125			10-Jan	0.8200	0.8275		9-Jan	0.8050	0.8069		14-Jan	0.8925			13-Jan	0.9788			12-Jan	1.1050		
18-Jan	0.9125			17-Jan	0.8100			16-Jan	0.8025			21-Jan	0.8925		0.8900	20-Jan	0.9600		0.9734	19-Jan	1.1250		1.1025
25-Jan	0.9125		0.9138	24-Jan	0.8100		0.8270	23-Jan	0.8025		0.8047	28-Jan	0.9000			27-Jan	0.9338			26-Jan	1.1250		
1-Feb	0.9113			31-Jan	0.8100			30-Jan	0.8025			4-Feb	0.9075	0.9038		3-Feb	0.8900			2-Feb	1.1750		
8-Feb	0.9113	0.9113		7-Feb	0.8075	0.8088		6-Feb	0.8025	0.8025		11-Feb	0.9125			10-Feb	0.8800	0.8850		9-Feb	1.2000	1.1875	
15-Feb	0.9113			14-Feb	0.8075			13-Feb	0.8025			18-Feb	0.9250			17-Feb	0.8650			16-Feb	1.2500		
22-Feb	0.9113		0.9113	21-Feb	0.8075		0.8081	20-Feb	0.8025		0.8025	25-Feb	0.9250		0.9140	24-Feb	0.8600		0.8858	23-Feb	1.2625		1.2025
1-Mar	0.9075			28-Feb	0.8050			27-Feb	0.8025			4-Mar	0.9250	0.9250		3-Mar	0.8538			2-Mar	1.2763		
8-Mar	0.9075	0.9075		7-Mar	0.8038	0.8044		5-Mar	0.8025	0.8025		11-Mar	0.9250			10-Mar	0.8250	0.8394		9-Mar	1.3175	1.2969	
15-Mar	0.9075			14-Mar	0.8038			12-Mar	0.8050			18-Mar	0.9250			17-Mar	0.8150			16-Mar	1.3213		
22-Mar	0.9075		0.9075	21-Mar	0.8038		0.8041	19-Mar	0.8050		0.8038	25-Mar	0.9275		0.9256	24-Mar	0.8150		0.8272	23-Mar	1.3575		1.3181
29-Mar	0.9050			28-Mar	0.8038			26-Mar	0.8075			1-Apr	0.9325			31-Mar	0.8150			30-Mar	1.4613		
5-Apr	0.9025	0.9038		4-Apr	0.8025	0.8031		2-Apr	0.8150			8-Apr	0.9325	0.9325		7-Apr	0.8100	0.8125		6-Apr	1.5200	1.4906	
12-Apr	0.9025			11-Apr	0.8025			9-Apr	0.8175	0.8163		15-Apr	0.9325			14-Apr	0.8100			13-Apr	1.5475		
19-Apr	0.9025		0.9031	18-Apr	0.8025			16-Apr	0.8200			22-Apr	0.9450		0.9356	21-Apr	0.8100		0.8113	20-Apr	1.6250		1.5384
26-Apr	0.9025			25-Apr	0.8025		0.8028	23-Apr	0.8200		0.8160	29-Apr	0.9450			28-Apr	0.8100			27-Apr	1.6750		
3-May	0.8975			2-May	0.8013			30-Apr	0.8250			6-May	0.9500	0.9475		5-May	0.8100	0.8100		4-May	1.7400	1.7075	
10-May	0.8975	0.8975		9-May	0.8013	0.8013		7-May	0.8500	0.8375		13-May	0.9525			12-May	0.8100			11-May	1.8625		
17-May	0.8975			16-May	0.8013			14-May	0.8550			20-May	0.9425		0.9475	19-May	0.8075		0.8094	18-May	1.8875		
24-May	0.8950		0.8980	23-May	0.8013		0.8013	21-May	0.8550		0.8463	27-May	0.9438			26-May	0.8075			25-May	1.9713		1.8273
31-May	0.8950			30-May	0.8013			28-May	0.8450			3-Jun	0.9450			2-Jun	0.8075			1-Jun	2.0100		
7-Jun	0.8950	0.8950		6-Jun	0.8013	0.8013		4-Jun	0.8500			10-Jun	0.9388	0.9419		9-Jun	0.8075	0.8075		8-Jun	2.0700	2.0400	
14-Jun	0.8950			13-Jun	0.8013			11-Jun	0.8500	0.8500		17-Jun	0.9400			16-Jun	0.8075			15-Jun	2.1275		
21-Jun	0.8963		0.8953	20-Jun	0.8013		0.8013	18-Jun	0.8500			24-Jun	0.9338		0.9403	23-Jun	0.8150		0.8090	22-Jun	2.1813		2.0972
28-Jun	0.8988			27-Jun	0.8013			25-Jun	0.8500		0.8490	1-Jul	0.9275			30-Jun	0.8150			29-Jun	2.1813		
5-Jul	0.8988	0.8988		4-Jul	0.8013	0.8013		2-Jul	0.8500			8-Jul	0.9275	0.9275		7-Jul	0.8200	0.8175		6-Jul	2.2400	2.2106	
12-Jul	0.8988			11-Jul	0.8013			9-Jul	0.8463	0.8481		15-Jul	0.9275			14-Jul	0.8213			13-Jul	2.2500		
19-Jul	0.8988		0.8988	18-Jul	0.8013			16-Jul	0.8463			22-Jul	0.9350		0.9294	21-Jul	0.8200		0.8191	20-Jul	2.1250		2.1928
26-Jul	0.8988			25-Jul	0.8013		0.8013	23-Jul	0.8413		0.8459	29-Jul	0.9375			28-Jul	0.8275			27-Jul	2.0750		
2-Aug	0.9025			1-Aug	0.8025			30-Jul	0.8413			5-Aug	0.9375	0.9375		4-Aug	0.8325	0.8300		3-Aug	2.0600		
9-Aug	0.9025	0.9025		8-Aug	0.8100	0.8063		6-Aug	0.8413	0.8413		12-Aug	0.9488			11-Aug	0.8375			10-Aug			
16-Aug	0.9025			15-Aug	0.8075			13-Aug	0.8413			19-Aug	0.9500		0.9434	18-Aug	0.8725			17-Aug			
23-Aug	0.9025		0.9018	22-Aug	0.8075		0.8069	20-Aug	0.8413		0.8413	26-Aug	0.9550			25-Aug	0.9013		0.8543	24-Aug			
30-Aug	0.9025			29-Aug	0.8075			27-Aug	0.8413			2-Sep	0.9538			1-Sep	0.9013			31-Aug			
6-Sep	0.9050	0.9038		5-Sep	0.8075	0.8075		3-Sep	0.8400			9-Sep	0.9563	0.9550		8-Sep	0.9038	0.9025		7-Sep			
13-Sep	0.9050			12-Sep	0.8075			10-Sep	0.8450	0.8425		16-Sep	0.9650			15-Sep	0.9038			14-Sep			
20-Sep	0.9050		0.9044	19-Sep	0.8075		0.8075	17-Sep	0.8450			23-Sep	0.9663		0.9593	22-Sep	0.9288		0.9094	21-Sep			
27-Sep	0.9050			26-Sep	0.8075			24-Sep	0.8400		0.8423	30-Sep	0.9738			29-Sep	0.9313			28-Sep			
4-Oct	0.9063	0.9056		3-Oct	0.8075			1-Oct	0.8400			7-Oct	0.9800	0.9769		6-Oct	0.9438	0.9375		5-Oct			
11-Oct	0.9063			10-Oct	0.8075	0.8075		8-Oct	0.8375	0.8388		14-Oct	0.9888			13-Oct	0.9663			12-Oct			
18-Oct	0.9063			17-Oct	0.8075			15-Oct	0.8375			21-Oct	0.9825		0.9813	20-Oct	0.9688		0.9525	19-Oct			
25-Oct	0.9063		0.9060	24-Oct	0.8075		0.8075	22-Oct	0.8375		0.8381	28-Oct	0.9850			27-Oct	0.9738			26-Oct			
1-Nov	0.9063			31-Oct	0.8075			29-Oct	0.8375			4-Nov	1.0038	0.9944		3-Nov	0.9838			2-Nov			
8-Nov	0.9100	0.9081		7-Nov	0.8075	0.8075		5-Nov	0.8375	0.8375		11-Nov	1.0013			10-Nov	0.9950	0.9894		9-Nov			
15-Nov	0.9100			14-Nov	0.8075			12-Nov	0.8450			18-Nov	1.0050			17-Nov	1.0038			16-Nov			
22-Nov	0.9100		0.9091	21-Nov	0.8075		0.8075	19-Nov	0.8450			25-Nov	1.0000		0.9990	24-Nov	1.0125		0.9938	23-Nov			
29-Nov	0.9100			28-Nov	0.8075			26-Nov	0.8450		0.8420	2-Dec	0.9950			1-Dec	1.0313			30-Nov			
6-Dec	0.8700	0.8900		5-Dec	0.8088	0.8081		3-Dec	0.8700			9-Dec	0.9850	0.9900		8-Dec	1.0400	1.0356		7-Dec			
13-Dec	0.8600			12-Dec	0.8088			10-Dec	0.8750	0.8725		16-Dec	0.9875			15-Dec	1.0550			14-Dec			
20-Dec	0.8600		0.8750	19-Dec	0.8088			17-Dec	0.8775			23-Dec	0.9913		0.9897	22-Dec	1.0600		1.0466	21-Dec			
27-Dec	0.8600			26-Dec	0.8088		0.8085	24-Dec	0.8800		0.8756	30-Dec	0.9938			29-Dec	1.0600			28-Dec			
								31-Dec	0.8850														

[1/] The 26th to the 10th covers the period proposed to be used in the Class 1 pricing formula.

[2/] The 26th to the 25th covers the period proposed to be used in the Class 4a pricing formula.