

November 7, 2008

Mr. David Ikari, Branch Chief  
Dairy Marketing  
California Department of Food and Agriculture  
560 J Street, Suite 150  
Sacramento, CA 95814

**Re: October 30-31 Class 1,2, & 3 Hearing – Post Hearing Brief**

Mr. Hearing Officer and Members of the Panel:

I am submitting a post-hearing brief on behalf of Kraft Foods following the October 30-31, 2008 CDFA hearing on adjustments to the classes 1, 2, and 3 milk price formulas.

**Question regarding market shares of cultured products**

Mr. Ikari asked me to provide market share data for companies from outside CA that are selling cultured products in CA. Since Kraft's interest is the Knudsen cottage cheese and sour cream products, the market share data is for those 2 products only. For cottage cheese sold at retail stores with Nielsen scanners, store brands have a 2008 year-to-date share of 44%. The market share of sour cream for store brands is about 33% this year. Since both products are relatively perishable and bulky, it can be assumed most store brand product is made in state. Unfortunately, we do not have data that breaks out the private label sales to individual stores.

For cottage cheese made by out-of-state manufacturers, the market share is very small. However, Daisy Brand cottage cheese products just entered the market in 2007 and have grown in 2008. While small relative to the total market, Daisy would gain a relative cost advantage if the Alliance et al. petition was adopted by the Department.

For sour cream, out-of-state products represent a larger share of the market with Daisy gaining nearly 5 share points in the last 2 years. In 2008, they have garnered nearly a 19% market share. Given the recent growth, and potential for a raw product cost advantage, it would be reasonable to expect further, and quite possibly accelerated, growth in their market share. As I stated in my testimony, CA farmers would not benefit from losing market share to out-of-state competition. With less cultured product demand for CA milk, the excess supply would end up further stressing the state's inadequate manufacturing capacity as it would likely go to a butter-powder plant.

**Question regarding transportation costs of out-of-state products**

Mr. Ikari also asked me to provide estimates of transportation costs for out-of-state cultured products moving into CA. Again using Daisy Brand products as an example, it is not possible to obtain their exact cost, but an estimate could be made using different freight rates and mileage. The Dairy Brand products are made in Garland, TX. For products moving from Garland to Los Angeles, the trip is nearly 1500 miles. Given the

recent volatility in diesel fuel prices, three different freight scenarios are given. Using \$2.00 per loaded mile (assuming a back-haul), that is about \$3000 total. Using \$2.50 per loaded mile (assuming a back-haul), that is about \$3750 total. And using \$3.00 per loaded mile (assuming a back-haul), that is about \$4500. To convert that over to a cost per package, I'm using the 12 ounce container SKU. Assuming a full load, the freight costs per container would range from around \$0.06 to 0.09 each.

**Summary**

In summary, I would ask the Department to reject the proposals from the Alliance and Milk Producers Council. Furthermore, I encourage the Department to adopt the alternate proposal from Dairy Institute as its proposed changes are necessary to protect California's markets and competitive position.

Thank you for the opportunity to provide a post-hearing brief.

Respectfully submitted,

Michael McCully  
Director, Dairy Procurement  
Kraft Foods