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California Department of Food and Agriculture
560 J Street, Suite 150
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RE: December 5, 2006 Class 1 Hearing -- Post Hearing Brief

Mr. Hearing Officer and Members of the Panel:

Dairy Institute appreciates the opportunity to submit the following post-hearing brief to amplify portions of our testimony presented in Sacramento on December 5, 2006. The paragraphs that follow build on the propositions that we put forth in our testimony.

The Need For California Plants To Remain Competitive

We have argued that increasing the overall Class 1 price level as proposed by the petitioners would hurt the competitiveness of California processors in the marketplace. To amplify this point, we note that a significant percentage of the Class 1 market in Las Vegas is currently supplied by California processors. Any increase in the overall Class 1 price level will hurt the ability of these processors to maintain their sales in the Las Vegas market. We note that Las Vegas has traditionally had a lower regulated price than Southern California, where most of the California-packaged milk that is sold in Las Vegas originates. An increase in the overall price level of 39 to 44 cents per hundredweight, as proposed by the petitioners would increase the disadvantage that California processors typically face when competing for sales with local plants. It would also undermine the ability of these processors to continue supplying the Las Vegas market, as there would be increased pressures by the retail accounts currently served by California processors to put competitively price product on the grocery store shelves.

Some of the sales from California plants to Las Vegas stores are so called “captive” sales where the processor supplying the milk and the retailer buying the milk are under common ownership. However, as Dairy Institute members have noted at prior hearings, if the processing division of a vertically integrated grocery store company is unable to provide milk at prices that are competitive with alternative supplies, the company's stores can and do obtain milk from other sources at cheaper prices.

More On The Producer Distributor Advantage

Panel Member Gossard asked if our calculation of the P-D advantage for Northern California might be in error because we had failed to account for the impact of the regional quota adjuster (RQA). After giving the matter more thought, we have concluded that our original calculation of the Northern California P-D advantage was understated. The quota price that should be used in the calculation is the quota price that would be available to the P-D's ranch operation, net of any quota adjusters. In the case of the type 70 option exempt P-Ds located in Northern California, the applicable quota adjuster (Fresno RQA) would be -27 cents per hundredweight. In light of this, the Northern California P-D advantage averaged $1.20 per hundredweight ($0.104 per gallon) from April 2000-September 2006, about the same as the Southern California P-D advantage.

Comment On The Milk Producers Council Proposal

At the hearing, the witness for Milk Producers Council (MPC) proposed the addition of a whey factor with a somewhat different whey adjuster than we proposed ($0.98 rather than $0.85). More significantly, MPC appears to be suggesting that while dry whey should be added to the Commodity Reference Price (CRP) calculation, no changes should be made to the CRP adjuster's current value of +$0.464 per hundredweight. According to our calculations, the MPC proposal would have increased the average Class 1 price level over the January 2000-November 2006 period by 21 cents per hundredweight when compared to the current formula. In 2006, their proposal would have increased average Class 1 prices by 65 cents per hundredweight over the current formula. While we commend MPC for recognizing the merit of incorporating dry whey into the Class 1 formula as we suggest, we cannot support a proposal that would increase the long-run average Class 1 price level so substantially, because it would negatively impact the competitiveness of California processors. We urge the Department to reject the MPC proposal.

Thank you for the opportunity to submit this post-hearing brief and for your consideration of our position.

Sincerely,

William A. Schiek
Economist