

To: Undersecretary George Gomes

CC: Kelly Krug, David Ikari, Dr. Jim Morgan

RE: Whey Review Committee, Request for Information

Date: May 6, 2008

Dear Undersecretary Gomes:

When the Whey Review Committee began meeting, we understood that there was one fundamental tenet advanced by cheese processors – cheese manufactures do not realize the full revenue that is attributed to them by the Class 4b formula, specifically, the whey component of the Class 4b formula. The record from the October 2007 Class 4b Hearing supports this perception, being replete with similar statements and references. We further understood, based on discussions with cheese processors, that it was the price inversion between dry whey and whey protein concentrate that caused them financial harm in 2007.

It follows logically that the price inversion between dry whey and whey protein concentrate is the issue that led to the hearing and, in part, the formation of the Whey Review Committee. However, it is simply not getting the attention that it needs and requires if a solution is to be adopted to prevent future occurrences. Furthermore, the price inversion needs to be addressed separately from the other issues being addressed by the Committee and prior to the consideration of any other technical formula adjustments, such as including a ceiling or floor or inserting a producer/processor sharing mechanism.

When evaluating the three remaining proposals, we are finding it impossible to separate the impact of the various aspects of each of the proposals. We suggest that the impact of the inversion “fix” should be evaluated prior to consideration of the technical adjustments of the proposals. When we can assess quantitatively what the recommended inversion “fix” does, then all of the alternative proposals can be evaluated properly.

Accordingly, we request that the Department prepare a monthly analysis (using data from the past five years) that clearly identifies what the contribution of the whey component *would have been* if the Class 4b pricing formula had included a mechanism that corrected the formula for an inversion of the dry whey price and the whey protein concentrate price. Alternative 8 from the Whey Review Committee includes an easily implemented model for how that correcting factor might be structured and included in the pricing formula, and we request that the analysis be conducted using that approach.

While we recognize that an analysis of all of the alternatives was provided at the March 11 Whey Review Committee meeting, the impact of the inversion was not isolated, and its impact was, consequently, confounded with other aspects of Alternative 8. We would like a clear look at the potential impact the mechanism to prevent an inversion would have, which the analyses presented by the Department, in our opinion, has not completely addressed. We would also like to have the “inversion corrected” dataset used to analyze all three of the remaining alternative proposals that are being considered by the Committee.

Thank your for your consideration of our request.

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William C. Van Dam, committee member  
Alliance of Western Milk Producers

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Tony Mendes, committee member  
California Dairies Inc.

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Ray Souza, committee member  
Western United Dairymen