

The Alliance

of Western Milk Producers

January 8, 2003

David Ikari, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
1220 N Street, Room A-224
Sacramento, California 95814

Re: Alternative Proposal for January 29, 2003, Hearing to Consider Changes to the California Milk Marketing Stabilization Pooling Plans' Class 4b Pricing Provisions

Dear Mr. Ikari:

This alternative proposal for changes to the stabilization plans is being submitted by the Alliance of Western Milk Producers on behalf of its member cooperatives: California Dairies Inc., Dairy Farmers of America and Humboldt Creamery. Together these cooperatives represent approximately 60 percent of the milk producers in California and more than 60 percent of the milk. It should also be pointed out that two of the three have ownership interests in cheese manufacturing facilities.

Prior to January 1, 2002, the difference between that California Class 4b price and the federal order Class III price (effective January 1, 2000) averaged 36 cents per hundredweight. Using the recently announced *final* federal order Class III formula would have widened that gap to 56 cents.

Through October of this year, 41.8 percent of all the milkfat pooled and 44.6 percent of all the solids-not-fat pooled has been utilized in making cheese. Cheese production is the single largest use of milk components in California and two components, butterfat and true protein, are critical in cheese making.

Paying dairymen for milk has followed an evolutionary path. Initially, payment was made strictly on total pounds of milk. The ability to test for butterfat content accurately and the recognition of the value butterfat resulted in producers being paid for pounds of butterfat and pounds of skim. In the Upper Midwest, protein premiums evolved into protein payment being adopted into various federal milk marketing orders prior to federal order reform. This in turn led to the recognition of the value of protein in federal order reform and payment by processors for milk on that basis.

The growth of cheese production in California has been compressed into a much shorter time frame than back East. From 1980 to 1990, California cheese production rose from 181 million pounds to 702 million pounds. Through October of this year, cheese production has reached

1.43 billion pounds. From 1990 to 1999, recognition of protein's value in California cheese making has grown as well.

The purposes of the stabilization and pooling plans in California are "to promote, foster and encourage the intelligent production and orderly marketing of commodities necessary to its citizens, including fluid milk and fluid cream, and to eliminate . . . improper accounting for milk purchased from producers." (California Food & Agriculture Code 62701) The Alliance believes it is time that the cheese yield value of milkfat and protein be directly reflected in the Class 4b pricing formula.

Over the years, whey has evolved from a by-product of cheesemaking to be disposed of to a significant source of revenue for cheese plants. Just as California is second only to Wisconsin in cheese production, it is second in the production of dry whey as well. More importantly, a significant portion of cheese whey is processed into whey protein concentrate. Therefore, the Alliance believes it is time that at least the minimum market value of whey be recognized in the Class 4b pricing formula as well.

Summary of Alliance alternative proposal

The following is a list of the key points with regard to the proposed changes to the Class 4b pricing formulas in the Northern and Southern California marketing areas. These changes will result in California milk pricing more completely recognizing the value of all of milk's components and being in a more reasonable relationship with federal order milk pricing:

1. The current Class 4b price formula will be replaced with formulas that calculate the value of all milk's components (milkfat, and solids-not-fat including protein) in the products (cheese, whey cream and dry whey) these components generate.
 - A. The Class 4b butterfat value will continue to be the Class 4a butterfat value.
 - B. A true protein value will be calculated using the following formula:
$$\text{True Protein Value per pound} = ((\text{CME block cheese price} - \$0.0321 - \$0.1746) \times 1.39) + (((\text{CME block cheese price} - \$0.0321 - \$0.1746) \times 1.63) - (\text{Butterfat price} \times 0.90)) \times 1.19$$
 - C. The whey solids value will be calculated using the following formula:
$$\text{Whey solids per pound} = (\text{Average of the Western mostly dry whey price} - \$0.159) \times 1.03 \text{ yield.}$$
 - D. The Class 4b solids not fat value equals $((3.1 \times \text{protein value}) + (5.9 \times \text{whey solids value}))$ all divided by 9.

The formulas continue to use the Chicago Mercantile Exchange AA butter and cheddar cheese block cash prices available for the period from the 26th of the month prior to the month for which the 4b component values are being computed to the 25th of that month.

Proposed changes to the pertinent sections of the Northern and Southern California Milk Stabilization and Pooling Plans are attached.

Summary

Unquestionably, the true protein level in milk has a definitive value in terms of the amount of cheese which milk will produce. Each additional tenth of a pound of cheese one hundred pounds of milk will yield enhances the profitability of the cheese manufacturer. It takes the same amount of effort – equipment investment, utilities, manpower – to process a hundredweight of milk that yields nine pounds of cheese as it does to process a hundredweight of milk that yields 11 pounds of cheese.

Two components determine the amount of cheese that milk will yield, butterfat and true protein, just as two components, butterfat and solids-not-fat, determine the quantities of butter and nonfat powder milk will yield. Whey is no longer a disposal problem, but a profit center. Therefore, it is as proper to recognize the value of protein and whey solids in producers' milk as it is to recognize the value of butterfat and solids not fat.

Only 19 percent of California's milk goes into the bottle. Only 10 percent goes into Class 2 and Class 3 products and only 30 percent goes into Class 4a, butter/powder. All dairymen and women share in the value generated by those uses of milk and it is appropriate that all producers share in the true value of milk used in Class 4b.

Sincerely,

A handwritten signature in black ink that reads "Jim Tillison". The signature is written in a cursive style with a long horizontal line above the name.

James E. Tillison
Chief Executive Officer
Alliance of Western Milk Producers

Stabilization Plan Language Changes

Section 100.11. "Milk", for purposes of this Plan, means the lacteal secretion from one or more cows, including the milk fat, ~~milk solids-not-fat~~ true protein, other solids, and fluid carrier portions thereof, each to be computed and accounted for separately.

Section 300 (D) The minimum prices to be paid for components used for Class 4a shall be computed as follows:

(1) For all milk fat, not less than the price per pound computed by the formula using the simple average of the Grade AA butter price quotations for the last significant trading action for the sale, offer or bid of butter at the Chicago Mercantile Exchange, less a freight adjustment of four and five-tenths cents (\$0.045), less a manufacturing cost allowance of twelve and eleven-hundredths cents (\$0.1211), and the result multiplied by a yield factor of 1.2.

Formula: (AA Butter - \$0.045 - \$0.1211) X 1.2

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

~~(1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following: (a) The price per hundredweight computed by using the simple average of the 40 pound block price quotations for the last significant transaction for Cheddar cheese at the Chicago Mercantile Exchange, less a marketing adjustment of one and two-tenths cent (\$0.012); less a Cheddar cheese manufacturing cost allowance of sixteen and nine-tenths cents (\$0.169); all multiplied by a yield factor of ten (10).~~

~~(b) The price per hundredweight computed by the formula using the simple average of the Grade AA butter price quotations for the last significant trading action for the sale, offer or bid of butter at the Chicago Mercantile Exchange, less a manufacturing cost allowance of nine and seven-tenths cents (\$0.097), all multiplied by a yield factor of twenty-seven-hundredths (0.27).~~

~~(2) For all milk fat, the price per pound computed pursuant to Subparagraph (D)(1) of this Section.~~

~~(3) (2) For all milk solids-not-fat:~~

~~(a) The price per pound of true protein shall be computed by using the simple average of the 40 pound block price quotations for the last significant transaction for Cheddar cheese at the Chicago Mercantile Exchange.~~

(i) Take the cheese price as determined in (2)(a) less \$0.0321 less a Cheddar cheese manufacturing cost allowance of seventeen and forty-six hundredths cents (\$0.1746) times a yield factor per pound of true protein of 1.39.

(ii) Add to the amount computed pursuant to paragraph (2)(a)(i) of this section an amount computed by taking the cheese price as determined in (2)(a) less \$0.0321 less a Cheddar cheese manufacturing cost allowance of seventeen and forty-six hundredths cents (\$0.1746) times a yield factor per pound of milkfat of 1.63;

(iii) Multiply the butterfat price computed pursuant to paragraph (1) of this section by 0.9 and subtract from the amount computed pursuant to paragraph (2)(a)(ii) of this section; and

(iv) Multiply the amount computed pursuant to paragraph (2)(a)(iii) of this section by 1.19.

$$\begin{aligned} & ((\text{Cheese price} - \$0.0321 - \$0.1746) \times 1.39) + \\ & (((\text{Cheese price} - \$0.0321 - \$0.1746) \times 1.63) - (\text{Butterfat price} \times 0.9)) \times 1.19 \end{aligned}$$

(b) The whey solids price per pound, rounded to the nearest one-hundredth cent, shall be the simple average of the USDA Dairy Market News West Mostly dry whey prices available for the period from the 26th of the preceding month to the 25th of the month for which the milk component prices are being calculated minus a make allowance cost of fifteen and nine-tenth (\$0.159) cents, with the result multiplied by 1.03.

$$\text{Whey Solids Price} = (\text{Western Mostly dry whey price} - \$0.159) \text{ multiplied by } 1.03.$$

(c) The Class 4b solids-not-fat value per pound shall be 3.1 times the protein value as calculated in (2)(a) of this section plus 5.9 times the value of whey solids as calculated in (2)(b) of this section, the sum of which is divided by nine (9). When the Department has the capability to do so, cheese manufacturers shall account to the pool for the actual true protein content and actual whey solids content of producer milk processed as determined in 2(a) and 2(b) above.

$$\text{Solids-not-fat} = ((3.1 \times \text{protein per pound}) + (5.9 \times \text{other solids per pound}))/9$$