January 8, 2003

Mr. David Ikari, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
1220 N Street, Room A224
Sacramento, CA 95814-5621

RE: Class 2, 3, 4a, and 4b Hearing Proposal

Dear Mr. Ikari:

The attached extracts from the current Stabilization and Marketing Plans for Northern California and Southern California reflect Dairy Institute's proposed amendments to the current Class 2, 3, 4a, and 4b price formulas in the two marketing areas of the state. These proposals respond to the Notice of Public Hearing dated November 5, 2002. The Department of Food and Agriculture called the hearing in response to a petition from Western United Dairymen.

Summary of Dairy Institute's Proposals

Dairy Institute's proposed formulas are as follows:

Class 4a

Fat = (CME AA Butter Price -$0.0332 -$0.1211) x 1.2

SNF = (Calf. NFDM Price - $0.1512) x 0.99

Class 4b

Cheese Hundredweight = (CME Cheddar Block Price -$0.008 - $0.1746) x 9.98
                 + (CME AA Butter Price - $0.10 - $0.1211) x 0.27

Fat = (CME AA Butter - $0.0332 - $0.1211) x 1.2

SNF = (Product Value - (3.68 x Fat Value)) / 8.76

Class 2 and 3

No changes are proposed to the Class 2 or 3 formulas or differentials, although the value of Class 2 and 3 prices will be impacted by the changes to the Class 4a formula.

Our purposes in proposing these changes to the Class 4b and 4a pricing formulas is in line with the objectives which we have stated in previous hearings, namely that make allowances be cost-justified, prices be reflective of what California plants actually receive for the products they produce, and that yields be reflective of what California plants can actually attain. We also recognize that the level of prices established for Class 4a and 4b must result in California's entire milk production being marketed.

The proposed formulas incorporate the new Department information regarding relationships between California prices and Chicago Mercantile Exchange (CME) prices for butter and cheddar cheese. The newest Department data with respect to manufacturing costs is incorporated in the proposed make allowances in these formulas. The yield for cheese was derived from the Van Slyke cheese yield formula, assuming average California milk composition of 3.68% fat and 8.76% solids not fat. We still have some concerns that the butter and nonfat dry milk yields put forth by the Department in a recent study do not include all of the relevant losses experienced by manufacturing plants and have proposed retaining the current yields. Otherwise, we have updated the technical factors of the formula to reflect the most current data wherever possible. Based on market price data from January 2000 through December 2002, our proposals would increase Class 2, 3, and 4a prices by an average of five cents per hundredweight relative to the current formula, while the average Class 4b price on a hundredweight basis would be unchanged.

Sincerely,

William Schiek
Economist

(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~~ *marketing* adjustment of ~~four and five-tenths cents ($0.045)~~ *three and thirty-two hundredths cents ($0.0332)*, less a manufacturing cost allowance of ~~ten and two-tenths cents ($0.102)~~ *twelve and eleven hundredths cents ($0.1211)*, and the result multiplied by a yield factor of 1.2.

(2)   For all milk solids-not-fat, not less than 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 for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month, less a manufacturing cost allowance of ~~sixteen and one-tenth cents ($0.161)~~ *fifteen and twelve hundredths cents ($0.1512)*, multiplied by a yield factor of ninety-nine hundredths (0.99).

 (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)~~ *eight-tenths cent ($0.008)*, less a Cheddar cheese manufacturing cost allowance of ~~seventeen and six-tenths cents ($0.176)~~ *seventeen and forty-six hundredths cents ($0.1746)*, all multiplied by a yield factor of ~~ten (10)~~ *nine and ninety-eight hundredths (9.98)*.

(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 ~~ten and two-tenths cents ($0.102)~~ *twelve and eleven hundredths cents ($0.1211)*, less ten cents ($0.10), 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)   For all milk solids-not-fat, the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and ~~sixty-five hundredths (3.65)~~ *sixty-eight hundredths (3.68)* multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and ~~seventy-eight hundredths (8.78)~~ *seventy-six hundredths (8.76)*.