

DEPARTMENT OF FOOD AND AGRICULTURE

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William (Bill) J. Lyons, Jr.
Secretary



March 19, 2003

TO ALL INTERESTED PARTIES:

On January 29th and 30th, 2003, the Department held a public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk (Plans). The amendments under consideration regarded changes to various changes to the Class 2, 3, 4a and 4b pricing formulas.

Having carefully weighed the contents of the hearing record, the Department has determined that several changes are warranted.

- In the Class 4a pricing formula the term "freight adjustment" is changed to "f.o.b. California Price Adjuster". Similarly, in the Class 4b pricing formula the term "marketing adjustment" is changed to "f.o.b. California Price Adjuster".
- f.o.b. California Price Adjuster for butter is changed from -\$0.0450 to -\$0.0332 per pound. For cheese, f.o.b. California Price Adjuster is changed from -\$0.012 to -\$0.0321 per pound.
- In the Class 4a pricing formula, the powder yield is increased from 0.99 to 1.0 pounds of powder per pound of SNF. The butter yield will remain at 1.2 pounds of butter per pound of fat.
- In the Class 4b pricing formula, the cheese yield and associated fat and SNF vat tests are increased from 10.0, 3.65% vat fat, and 8.78% vat SNF to 10.2, 3.72% vat fat, and 8.80% vat SNF, respectively.
- The federal support purchase prices for butter, nonfat powder and block Cheddar cheese are incorporated as floors to their respective commercial commodity prices in the Class 4a and 4b pricing formulas.
- A dry skim whey factor is included in the Class 4b pricing formula. A simple average of the Western dry whey (mostly) is used for the commodity price series. The manufacturing cost allowance is set to \$0.17, which is two cents higher than the nonfat powder manufacturing cost allowance. The yield is set to 5.8 pounds of dry whey per one hundred pounds of milk.

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- The manufacturing cost allowance for Grade AA butter and whey butter is increased from \$0.102 to \$0.132. The manufacturing cost allowance for nonfat powder is decreased from \$0.161 to \$0.150. The manufacturing cost allowance for block Cheddar cheese is decreased from \$0.176 to \$0.175.
- At this time, the Class 2 and 3 pricing formulas will remain unchanged from their current form, the Class 4b pricing formula will continue to establish component prices only for fat and solids-not-fat, and variable manufacturing cost allowances will not be adopted.

In total, the changes will result in processors having to pay more for farm milk. If the Department's announced changes were in effect from January 1998 to December 2002, the prices for Classes 2, 3 and 4a would have increased by \$0.10 per hundredweight relative to the current pricing formulas. For Class 4b, the increase would have been \$0.19 per hundredweight. Changes to annual pool prices would have averaged \$0.11 per hundredweight over the five-year period.

The adjustments to the Plans will take effect for milk delivered to processing plants on or after April 1, 2003.

Copies of the Hearing Determinations and a more detailed explanation of the Department's decision may be obtained by contacting the Dairy Marketing Branch at (916) 341-5988. You may also download copies from the Department's website at www.cdfa.ca.gov/dairy. From the main page, click on [Public Hearings] and then on [Dairy Hearings and Results].

Should you have any questions or desire further information, please contact Eric Erba or Tom Gossard at the number above.

Media contacts and publication staff are asked to contact the Department's Public Affairs Office by e-mail at cdfapublicaffairs@cdfa.ca.gov or by phone at (916) 654-0462.

Sincerely,

David K. Ikari, Chief
Dairy Marketing Branch