



December 21, 2001

TO ALL INTERESTED PARTIES:

On November 29, 2001, the Department held a public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk (Plans). The amendments under consideration regarded an increase in the manufacturing cost allowances for processing raw milk into dairy products because of increased energy costs dairy processing plants have incurred. Having carefully weighed the contents of the hearing record, the Department has determined that these allowances should be increased.

The increase in allowances will result in processors having to pay less for farm milk because of higher operating costs. The adjustment will take effect for milk delivered to processing plants on or after January 1, 2002.

Evidence and testimony entered into the hearing record documented higher costs for both electricity and natural gas that dairy processors have paid over the past 18 months. These higher costs have significantly affected dairy processing plants' overall operating costs.

The adjustments to the minimum pricing formulas will be as follows:

- ◆ For Butter and Whey Butter – the manufacturing cost allowance is increased from 9.7 to 10.2 cents per pound of finished product.
- ◆ For Cheese – the manufacturing cost allowance is increased from 16.9 to 17.6 cents per pound of finished product.
- ◆ For Nonfat Dry Milk – the manufacturing cost allowance is increased from 14.0 to 16.1 cents per pound of finished product.

Because the Class 2 (cream, yogurt and cottage cheese) and Class 3 (frozen products) pricing formulas are set as a fixed differential above Class 4a (butter and nonfat dry milk) prices, the adjustments made in the Class 4a manufacturing cost allowances will also be reflected in Class 2 and 3 prices.

To All Interested Parties

December 21, 2001

Page Two

Copies of the Department's decision may be obtained by contacting the Dairy Marketing Branch at 916-654-1456. You may also download a copy 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.

Sincerely,

David K. Ikari, Chief
Dairy Marketing Branch