

DETERMINATIONS, FINDINGS, CONCLUSIONS AND ORDER OF THE SECRETARY OF FOOD AND AGRICULTURE

In Regard to the Public Hearing Held on January 29th and 30th, 2003

DETERMINATIONS

A duly noticed public hearing was held by the Department of Food and Agriculture (Department) on January 29th and 30th, 2003, to consider adjustments to the Class 2, 3, 4a and 4b pricing formulas. The Department called the hearing after receiving a petition from Western United Dairymen, a dairy producer trade association. Testimony and evidence pertinent to proposed changes were received into the hearing record; additional material was submitted by means of post-hearing briefs following the close of the hearing. The Secretary's decision is based on both the hearing record and on the Panel Report to the Secretary of Food and Agriculture (Attachment A).

In weighing all available information, the Department has determined that changes to the current Stabilization and Marketing Plans for Market Milk are warranted and necessary to continue to effectuate the declared purposes of the Food and Agricultural Code.

Based on the hearing record and Panel Report, the Secretary accepts the Panel's recommendation to include a dry skim whey pricing component in the Class 4b pricing formula. Furthermore, the Secretary accepts the Panel's recommendations for changes to the f.o.b. California price adjusters for butter and block Cheddar cheese, to the yields for nonfat powder and block Cheddar cheese, and to the manufacturing cost allowances for butter, nonfat powder and dry skim whey. Finally, the Secretary accepts the Panel recommendations not to include protein pricing in the Class 4b formula, not to include variable manufacturing cost allowances in either of the Class 4 formulas and not to change the Class 2 and 3 pricing formulas.

The Secretary modifies two of the Panel's recommendations. First, the Secretary has determined that the federal Support Purchase Prices (SPP) will serve as price floors in the Class 4a and 4b pricing formulas. Second, the Secretary has determined that the appropriate manufacturing cost allowance for cheese in the Class 4b formula is \$0.175 per pound.

Using Support Purchase Prices as Price Floors

The Secretary agrees with supporters of flooring the commodity prices for butter, nonfat powder and Cheddar cheese at the federal support purchase prices. The intent of the federal dairy price support program is such that milk prices should not fall below the target price range if the program is functioning correctly. During times when commodity prices are extremely weak, California producers should be afforded a safety-net support price for their milk that is based on the federal support purchase prices. The price support program was not terminated as it was scheduled and, in fact, has been extended through December 31, 2007.

Class 4b Manufacturing Cost Allowance

The Panel's recommendation for manufacturing cost allowances needs to be adjusted for more balance among the three products. The volume covered for cheese, 55 percent, is lower than that for both butter (77 percent) and nonfat powder (69 percent). Therefore, the Secretary finds that the block Cheddar cheese manufacturing cost allowance should be set at \$0.175 per pound. This would increase the volume covered for cheese from 55 percent to 77 percent, which is consistent with the level of coverage for butter and nonfat powder.

The following table compares the effect of the Secretary's determinations and the Panel's recommendations on minimum class prices and on pool prices. The analysis assumes that both were in effect from January 1998 to December 2002.

	<u>Classes 2, 3 & 4a</u>	<u>Class 4b</u>	<u>Pool Prices</u>
Secretary's Determinations	\$0.10	\$0.19	\$0.11
Panel's Recommendations	\$0.09	\$0.17	\$0.10

FINDINGS AND CONCLUSIONS

The Department has considered all relevant information, including, but not limited to, testimony and items of evidence submitted by all parties to these proceedings, whether specifically mentioned herein, in rendering these findings. The Department has considered all provisions set forth in Chapter 2 and 3, Part 3, Division 21 of the Food and Agricultural Code, whether specifically mentioned herein, in rendering these findings. These include, without exception, all provisions and declarations regarding public interest considerations.

It is hereby found and concluded that:

- The current Stabilization and Marketing Plans for Market Milk now in effect are no longer conform to the standards prescribed in nor tend to effectuate the purposes of said Chapters 2 and 3.
- The proposed changes in the Panel Report (Attachment A) to the f.o.b. California price adjusters for butter and block Cheddar cheese; to the butter, powder and block Cheddar cheese yields; regarding the addition of factors to capture the value of the skim whey stream; and to the butter and powder manufacturing cost allowances will tend to effectuate the purposes of said Chapters 2 and 3.

- The addition of the support purchase prices for butter, nonfat dry milk, and block Cheddar cheese to the pricing formulas will also tend to effectuate the purposes of said Chapters 2 and 3.
- The new Stabilization and Marketing Plans for Market Milk for Northern California (Attachment B) and Southern California (Attachment C) conform to the standards prescribed in and tend to effectuate the purposes of said Chapters 2 and 3.

ORDER

It is hereby ordered that the Stabilization and Marketing Plans for Market Milk for Northern California (Order Number 43) and for Southern California (Order Number 58) become effective on and after April 1, 2003.

Daniel Webb, Deputy Secretary
California Department of Food and Agriculture

Signed and entered in
the Office of the Secretary
of Food and Agriculture at
Sacramento, California,
On March 18, 2003