



Alliance of Western Milk Producers

Representing California's dairy cooperatives and their producer-owners since 1991

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November 25, 2003

The Honorable A. G. Kawamura, Secretary
California Department of Food & Agriculture
1220 N Street
Sacramento, CA 95814

Subject: Western United Dairymen Petition to Amend the Northern and Southern California Milk Stabilization Plan, Section 300 (D)(1)(2) and E(1).

Dear Secretary Kawamura:

The Alliance of Western Milk Producers represents the following farmer-owned dairy cooperatives; California Dairies, Dairy Farmers of America and Humboldt Creamery. These three cooperatives are owned by over half of California's dairy farm families. I am writing you today on their behalf regarding Western United Dairymen's petition for a hearing to adjust the manufacturing allowances used to calculate the Class 4a and Class 4b make allowances.

The members of the Alliance urge you to deny this petition. CDFA Dairy Marketing Branch's analysis of the latest manufacturing data clearly shows that an adjustment is not justified at this time. Hearings are time consuming for all parties involved and, in our opinion, should only be called when circumstances and/or data clearly justify that a hearing be called. The Alliance believes that CDFA data shows that neither is the case at this time.

The data compiled at Western United's request and communicated to the industry in a letter from the Department dated November 17, 2003, contains two tables. Table 1 shows the weighted average cost of producing ascending levels of production for cheese, butter and nonfat dry milk. Table 2 shows the percent of the production of cheese, butter and nonfat dry milk powder covered by various manufacturing costs.

A weighted average cost is just that, an average. It doesn't mean that 100% of the product produced can be produced at that cost. It means that some of the product is produced at less than the weighted average and some is produced at a higher cost. That is why the Alliance rejects using the weighted average costs for the make allowances in the cheese, butter and nonfat powder milk pricing formulas.

Western United made a similar proposal for the hearing held on January 29, 2003. At that hearing they proposed that the make allowance be set at 100% of the weight average cost of 80% of the production. The hearing panel, and ultimately Secretary Lyons, rejected that approach instead opting for manufacturing allowance levels that covered approximately 77% of the production, but not on a weighed-average basis. In other words, all 77% of the production of these products could be manufactured at these make allowance levels.

Which brings us to Table 2 of the CDFA November 17 document. As stated previously, this table shows how much of the production of butter, nonfat powder and cheese can be produced for the manufacturing allowances shown as well as the current manufacturing allowances. The data in that table, the current manufacturing allowances and Western United's (WUD) proposal are shown below:

<u>Range of Product Pounds Covered</u>	<u>Butter</u>	<u>Nonfat Powder</u>	<u>Cheese</u>
50% to 59.9%	\$0.124	\$0.149	\$0.154
60% to 69.9%	\$0.126	\$0.149	\$0.156
70% to 79.9%	\$0.133	\$0.151	\$0.156
80% to 89.9%	\$0.133	\$0.151	\$0.187
Current Allowance	\$0.132	\$0.150	\$0.175
WUD Proposal	\$0.1189	\$0.1419	\$0.1599

This data shows that the current manufacturing allowances are inline in terms of covering fully the level of production used by the Department in its decision following the January 2003 hearing. By comparison, the manufacturing allowances proposed by Western United would not even cover the cost of manufacturing 50% of the butter and powder produced in 2002.

The value of the Department's manufacturing cost data is to see if there has been a significant change in manufacturing costs. The issue of concern is the difference in the periods that the cost studies cover. According to the November 2003 data sent to the industry on November 6, 2003, the most recent manufacturing cost data is based on cost studies carried out during the period between January and December 2002. All the other cost data in the table labeled, "Weighted Average Manufacturing Costs for Butter, Nonfat Powder and Cheddar Cheese 1989 – 2003," was based on cost studies carried out over 18-month periods. For example, the data released November 2002 covered cost studies done between July 2000 and December 2001.

The cost study department should be commended for significantly narrowing the period during which the cost studies are done. However, we submit that comparing the data released in November 2003 to the data released in November 2002 is comparing two very different time periods. In order to evaluate changes in manufacturing costs accurately, data from cost studies completed between January and December 2003 should be compared to the data released November 2003.

Based on the above information, the Alliance respectfully requests that the Department reject the Western United petition for a hearing at this time. The data in Table 2 of the Department's November 17 letter to the industry clearly shows that the current make allowances are not excessive.

Respectfully submitted,



Jim Tillison, CEO

cc: Dave Ikari, Dairy Marketing Branch Chief
Alliance Board of Directors