

DEPARTMENT OF FOOD AND AGRICULTURE

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January 23, 2003

TO ALL INTERESTED PARTIES:

The Department held a pre-hearing workshop on January 22, 2003 to discuss the analyses of the petition and alternative proposals and other releases from the Department pertinent to the January 29, 2003 hearing. At the workshop, several request for additional information were made. This letter is in response to those requests.

1. Impacts of petition and alternative proposals when compared to federal order price formulas in currently effect

This comparison was summarized on page 8 of the workshop analysis handout entitled, "Summary Analysis of Alternative Concepts and Proposals for January 22, 2003 Pre-Hearing Workshop". At the workshop, the figures were designated as "preliminary". Those figures have been verified; the table and its figures are accurate. The "preliminary" designation for page 8 can be removed.

2. Explanation of price flooring procedure in effect until 1996

From 1973 until 1996, the support purchase price (SPP) was used as a floor for commercial butter and powder prices, but not cheese prices. The formula that priced Class 4a SNF used the higher of the California weighted average price for powder or the SPP for powder, less a make allowance and then multiplied by a yield factor. The California Dairy Women Association (CDWA) and the California Dairy Campaign (CDC) also use the same approach. However, there is a slight difference when pricing the fat portion of Class 4a milk. The historic approach used the format,

Class 4a fat price = Higher of (commercial market price less freight adjustment) or SPP, less make allowance, all multiplied by a product yield.

The two alternative proposals from CDWA and CDC subtract the freight adjustment from both the SPP and the commercial price such that the format would be,

Class 4a fat price = Higher of (commercial market price or SPP) less freight adjustment, less make allowance, all multiplied by a product yield.

The two alternative proposals would also incorporate the SPP for cheese in a similar manner such that the freight adjustment is subtracted from both the SPP and the commercial price.

3. California's Share of U.S. Skim Whey Powder and Whey Protein Concentrate Production, 1989 to 2002

California's Share of U.S. Skim Whey Powder and Whey Protein Concentrate Production, 1989 to 2001			
	<u>Cheese</u>	<u>Dry Skim Whey</u>	<u>Whey Protein Concentrate</u>
1989	10.9%	3.2%	3.7%
1990	11.6%	2.6%	6.8%
1991	12.3%	6.7%	13.0%
1992	12.4%	6.1%	7.7%
1993	13.8%	6.0%	13.0%
1994	14.4%	6.5%	15.6%
1995	14.1%	6.6%	12.9%
1996	14.6%	7.2%	21.2%
1997	16.0%	10.5%	20.9%
1998	16.6%	10.6%	27.7%
1999	17.7%	11.2%	27.8%
2000	18.1%	12.1%	32.8%
2001	19.9%	14.3%	34.1%

Source: USDA-NASS Dairy Products Annual and CDFA

4. Is plant loss for butter or powder a factor in the make allowance or is it only a factor in the yield estimates?

Plant loss of fat and solids-not-fat (SNF) is accounted properly for when computing both the plant processing costs and the plant yields. Manufacturing costs increase and yields decrease with increasing losses of fat and SNF.

Plant loss is a reflection of the fat and SNF recovered in finished products relative to the fat and SNF received. These lost components are prorated across all sectors of the processing operation, from receiving to packaging.

5. Simple regression equation of whey protein concentrate price (WPC) on skim whey powder price (SWP):

$$\text{WPC} = 0.433 + 0.763 * \text{SWP} \quad r^2 = 7.5\%$$

The equation means that the price of WPC is approximately equal to 0.433 plus 0.763 multiplied by the price of SWP.

Note: The coefficient of determination, r^2 , normally ranges between 0% to 100%. An r^2 of 0% indicates that none of the variation in the price for WPC can be explained by the variation in the price for SWP. Conversely, an r^2 of 100% indicates that all of the variation in the price for WPC can be explained by the variation in the price for SWP.

6. What is the percent of barrel-type cheese produced plants in the cost studies relative to all Cheddar cheese or all Cheddar and Jack cheese produced?

The barrel-type cheese includes 640-lb. blocks as well as 500-lb. barrels. In the cost studies which covers the 18-month period July 2000 to December 2001, barrel-type cheese represented 40% of the Cheddar and Jack cheese produced by the nine plants in the study.

During the calendar year 2001, the volume of barrel-type cheese represented 45% of the Cheddar cheese produced relative to the volume of Cheddar produced by the nine plants in the cost study. Relative to all 19 California plants producing Cheddar cheese during 2001, barrel-type cheese represented 43% of Cheddar cheese produced.

7. Some of the volume of butter and powder that is in the cost studies was excluded from butter/powder yield study because of unresolved problems with the data. The powder cost study included eleven plants representing 100% of the powder produced in California. The powder yield study included ten plants and 98.9% of the powder produced in California. The butter cost study included seven plants representing 99.8% of the butter produced in California. The butter yield study included six plants and 63.2% of the butter produced in California.

The analysis of the petition and alternative proposals, the review of cheese by-products and the monthly cheese price series data have been posted to the Dairy Programs website. Please visit the website at <http://www.cdfa.ca.gov/dairy/hearinganalysis.html> to view these documents.

Should you have any questions regarding this meeting please contact Eric Erba or Tom Gossard at the telephone number listed above.

Sincerely,

David K. Ikari, Chief
Dairy Marketing Branch