



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

November 20, 2007

TO ALL INTERESTED PARTIES:

On October 10 and 11, 2007, the Department held a public hearing to consider amendments to the Northern and Southern California Stabilization and Marketing Plans for Market Milk (Stabilization Plans) and the Pooling Plan for Market Milk. The proposed amendments to the Class 4a and 4b pricing formulas and the Pooling Plan were carefully considered in the Department's hearing determinations.

Based on the history of the pricing programs, it is clear the statutory authority for the pricing program was designed for production and marketing conditions that were significantly different than the California dairy industry finds itself in today. California cheese usage was relatively insignificant when the enabling pooling statutes were first made effective. Today, cheese usage represents almost half of the state's total usage of California milk production and comprises the single largest utilization of California production.

At best, it is uncertain as to whether or not the statutes were ever intended to provide the legislative authority for: (1) price relief to a distinct group of manufacturing processors via a credit from pool revenues; (2) credit from pool revenues for the expansion of the state's processing plant capacity; and (3) the establishment of multi-tier pricing within a specific classified price. Therefore, the Department has decided not to adopt these proposed credits.

The hearing record demonstrated that the current dry whey factor in the Class 4b pricing formula is not a good reflector of a commodity value for whey by-products. Over the last five years, this factor lowered Class 4b prices the first two years, had no impact on the third year, and increased prices over the last two years. Replacing the highly volatile dry whey factor with a fixed whey value of \$0.25 cents per hundredweight will provide a fixed value to producers, and will help avoid the negative consequences of volatile prices that impacted small cheese processors in 2007.

The current manufacturing cost allowances in the Class 4a and 4b pricing formulas are based on processing cost data from 2004. Comparing the allowances with the 2006 processing cost data showed:

- (1) The current allowance for butter provides sufficient operating margins;
- (2) The current allowance for nonfat dry milk provides insufficient operating margins;
and
- (3) The current allowance for cheese does not cover the processing costs of even the most efficient plant.



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Therefore, the Department is:

- (1) Leaving the allowance for butter at its current level of \$0.1560 cents per pound;
- (2) Increasing the allowance for nonfat dry milk from \$0.1600 to \$0.1698 per pound;
and
- (3) Increasing the allowance for cheese from \$0.1780 cents to \$0.1988 cents per pound.

Finally, the current California f.o.b. price adjusters in the Class 4a and 4b pricing formulas are based on price data for the 24 months ending December 2005. Comparing these adjusters with the price data for the 24 months ending August 2007 showed that:

- (1) The current adjuster for butter does not relate California prices relative to the Chicago Mercantile Exchange prices; and
- (2) The current adjuster for cheese correctly relates California prices to the Chicago Mercantile Exchange prices.

Therefore, the Department is:

- (1) Increasing the f.o.b. adjuster for butter from \$0.0168 to \$0.0309 per pound; and
- (2) Leaving the f.o.b. adjuster for cheese at \$0.0252 per pound.

The adjustments to the Stabilization Plans will take effect for milk delivered to processing plants on December 1, 2007.

A detailed explanation of the Department's decision and copies of the Hearing Determination may be obtained from the Dairy Marketing Branch website at www.cdfa.ca.gov/dairy. From this page click on the Hearing matrix link, then click on the hearing panel report and Final Results (Final Determinations).

Should you have any questions or desire further information on the pricing adjustments, please contact Dave Ikari at (916) 341-5988. Should you have any questions about the Pooling Plan, please contact John Lee at (916) 341-5901.

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

Sincerely,

Dave Ikari, Chief
Dairy Marketing Branch

John Lee, Chief
Milk Pooling Branch