

Dairy Institute

Of California

May 10, 2005

Mr. David Ikari, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
560 J Street, Suite 150
Sacramento, CA 95814

RE: May 3, 2005 Class 1 Hearing -- Post Hearing Brief

Mr. Hearing Officer and Members of the Panel:

Dairy Institute appreciates the opportunity to submit the following post-hearing brief to amplify portions of our testimony presented in Sacramento, California on May 3rd, 2005. The paragraphs that follow respond to the panel's questions and build on the propositions that we put forth in our testimony.

1. *Comment on the methodology used to calculate per capita sales of beverage milk products for California and the Rest of the U.S.*

Data on annual fluid milk sales were obtained from USDA, Economic Research Service as published annually in the Livestock, Dairy and Poultry Outlook. Data on fluid milk sales in California were obtained from California Dairy Statistics and Trends (various annual issues). Population data were obtained from the US Census Bureau estimates of average population during the year for years 1980-2003. California population estimates were obtained from the California Department of Finance website.

U.S. fluid milk sales were adjusted to reflect beverage milk sales only by subtracting buttermilk and eggnog sales from the total. The result included sales of whole milk, reduced fat, lowfat, and skim milk items as well as flavored milks. California Class 1 sales data were adjusted by subtracting yogurt (in 1980 through 1993) and half and half. The resulting data was California beverage milk sales in gallons. The California data were converted to beverage milk sales in pounds by multiplying the gallon sales numbers by 8.63 pound per gallon. The annual beverage milk sales for California and the U.S. were then divided by their respective populations to achieve the per capita sales data. A table containing the data used in creating Figure 5 from our May 3, 2005 testimony is attached (Attachment 1)

2. *The witness for Milk Producers Council stated that decreasing the Class 1 price would trigger compensatory payments.*

It is true that a reduction in Class 1 prices would increase the likelihood that processors would have an obligation to pay compensatory payments on shipments of packaged milk into federal order areas. However, there would be no "double whammy" impact on California producers as the witness suggests. Compensatory payments that apply to California plants are determined by subtracting the appropriate California Class 1 price from the federal order price applicable at the California plant's location. Anytime this difference is positive, compensatory payments are owed on each hundredweight of milk shipped into a federal order marketing area in an amount equal to the calculated difference.

Under the Dairy Institute's proposal, the producers in California would face a lower Class 1 price based on the proposed reduction in the CRP adjuster; however, the increased compensatory payments faced by processors shipping packaged milk into federal orders marketing areas would also be offset by the lower California Class 1 price. Hence, the California processor's net cost of shipment into federal order marketing areas would be unchanged from its current level in most months. Moreover, the net cost to the processor for such shipments would be reduced in those months when, under the current formula, California Class 1 prices are higher than the federal order price at the California plant's location (i.e. the price at the California's plants location as determined from the federal order price surface map).

So the processor is no worse off with respect to the net raw product cost of his shipments into federal marketing orders, and in some cases will be better off. At the same time, consumers in California will benefit from reduced Class 1 prices, which analyses by CDFA and Prof. Hoy Carmen of UC Davis have shown will be transmitted through the marketing channel to consumers.

We have also attached a list of references that were cited in our May 3, 2005 testimony, but were inadvertently omitted in the written document we submitted (See Attachment 2).

Thank you for your consideration of our post-hearing brief.

Sincerely,

William A. Schiek
Economist

Year	CA Class I 1000 gal.	CA Sales of Beverage Milk 1000 gal.	CA Sales of Beverage Milk mil lbs	US Class I mil lbs	US Butter-milk mil lbs	US Beverag Milk mil lbs	CA Yogurt 1000 gal.	CA H/H thou lbs	ROUS Beverage Milk mil lbs	CA H/H mil lbs	US H/H mil lbs	US Pop
1980	725,455	700,308	6,043.66	53006	927	52079	15,753	9,394	46,035	78.44	551	227,225,000
1981	719,615	695,303	6,000.46	52699	926	51773	14,662	9,650	45,773	80.58	568	229,466,000
1982	707,272	682,963	5,893.97	51780	950	50830	14,609	9,700	44,936	81.00	569	231,664,000
1983	718,273	691,504	5,967.68	52,112	1,006	51106	16,701	10,068	45,138	84.07	599	233,792,000
1984	733,466	704,845	6,082.81	52,791	1,020	51771	17,374	11,247	45,688	93.91	656	235,825,000
1985	756,233	724,904	6,255.92	53,939	1,046	52893	19,371	11,958	46,637	99.85	714	237,924,000
1986	758,778	727,261	6,276.26	54,222	1,017	53205	19,810	11,707	46,929	97.75	759	240,133,000
1987	761,629	730,181	6,301.46	53,918	1,040	52878	20,499	10,949	46,577	91.42	755	242,289,000
1988	777,666	744,821	6,427.81	54,336	1,006	53330	21,690	11,155	46,902	93.14	752	244,499,000
1989	793,741	762,127	6,577.16	54,864	910	53954	20,342	11,272	47,377	94.12	769	246,819,000
1990	809,662	776,604	6,702.09	54,771	879	53892	21,228	11,830	47,190	98.78	739	249,623,000
1991	807,794	776,538	6,701.52	55,054	855	54199	20,215	11,041	47,497	92.19	768	252,981,000
1992	796,657	766,615	6,615.89	55,020	808	54212	19,700	10,342	47,596	86.36	804	256,514,000
1993	760,027	739,451	6,381.46	54,375	780	53595	10,093	10,483	47,214	87.53	821	259,919,000
1994	755,015	744,419	6,424.34	54,676	760	53916		10,596	47,492	88.48	813	263,126,000
1995	752,196	742,059	6,403.97	54,580	739	53841		10,137	47,437	84.64	831	266,278,000
1996	752,299	741,715	6,401.00	55,028	711	54317		10,584	47,916	88.38	876	269,394,000
1997	752,500	741,863	6,402.28	54,782	691	54091		10,637	47,689	88.82	883	272,647,000
1998	746,409	735,085	6,343.78	54,516	676	53840		11,324	47,496	94.56	895	275,854,000
1999	748,682	735,914	6,350.94	54,907	668	54239		12,768	47,888	106.61	960	279,040,000
2000	753,217	740,215	6,388.06	54,490	622	53868		13,002	47,480	108.57	1008	282,178,000
2001	747,708	734,390	6,337.79	53,980	592	53388		13,318	47,050	111.21	1146	285,094,000
2002	761,224	746,320	6,440.74	54,216	576	53640		14,904	47,199	124.45	1140	287,974,000
2003	764,424	746,999	6,446.60	54,364	547	53817		17,425	47,370	145.50		290,810,000
2004	755,595	737,935	6,368.38					17,660		147.46		293,742,501

CA Pop	Per Capita US Beverage Milk		Per Capita RUS Beverage Milk	US Per Capita as % of 1980	CA Per Capita as % of 1980	Year
	lbs/per year	lbs per year	lbs per year	Rest of US	California	
23,782,000	229	254	226	1.00	1.00	1980
24,278,000	226	247	223	0.99	0.97	1981
24,805,000	219	238	217	0.96	0.94	1982
25,337,000	219	236	217	0.96	0.93	1983
25,816,000	220	236	218	0.96	0.93	1984
26,403,000	222	237	220	0.97	0.93	1985
27,052,000	222	232	220	0.97	0.91	1986
27,717,000	218	227	217	0.96	0.89	1987
28,393,000	218	226	217	0.96	0.89	1988
29,142,000	219	226	218	0.96	0.89	1989
29,828,000	216	225	215	0.95	0.88	1990
30,458,000	214	220	213	0.94	0.87	1991
30,987,000	211	214	211	0.93	0.84	1992
31,314,000	206	204	207	0.91	0.80	1993
31,523,000	205	204	205	0.91	0.80	1994
31,711,000	202	202	202	0.89	0.79	1995
31,962,000	202	200	202	0.89	0.79	1996
32,452,000	198	197	199	0.88	0.78	1997
32,862,000	195	193	195	0.86	0.76	1998
33,417,000	194	190	195	0.86	0.75	1999
34,040,000	191	188	191	0.85	0.74	2000
34,727,000	187	183	188	0.83	0.72	2001
35,336,000	186	182	187	0.83	0.72	2002
35,934,000	185	179	186	0.82	0.71	2003
36,530,500		174			0.69	2004

Attachment 2

References

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