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David K. Ikari, Dairy Marketing Branch Chief
John Lee, Milk Pooling Branch Chief
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Re: Post-Hearing Brief for the January 31, 2006 Transportation Hearing

Dear Mr. Ikari and Mr. Lee:

We thank you for the opportunity to file this post-hearing brief. There are a few items that we would like to address.

Western United Dairymen, as well as other hearing participants, were asked to address the concern of many regarding the use of local Southern California milk for uses other than fluid. Specifically, the Hearing Panel wanted input on establishing higher or new transportation allowances for close-in brackets in Southern California as a means to attract additional local milk for fluid use. As mentioned at the hearing, Western United Dairymen has not taken a position on this specific issue. However, we can offer a few comments that are in-line with established WUD policy.

As mentioned in our testimony, our board feels that producers who service the Class 1 market should be rewarded. However, we also noted that producers should not make money off transportation allowances by being overcompensated for their hauling costs through the allowance. This is not the purpose of transportation allowances, unnecessarily increases costs to the pool and is contrary to the basic tenet that a regulated system ought to attempt to minimize costs to the pool. Additionally, WUD has supported the basic guiding principle that has historically been used – through transportation allowances, shippers should be made indifferent when choosing to ship the milk locally or to the more distant (and presumably, a higher usage) plant.

It is beyond our ability to know whether or not the current $0.09 allowance is at a level that exceeds the difference between each producer's "distant" (fluid) and "local" (cheese) haul. Assuming the current local Southern California allowances are set at appropriate rates (with a small increase to reflect current hauling rates) to supply an "incentive" to ship to a fluid plant, it is possible that substantial increases to those rates would result in overcompensation to those producers without desired results. Of course, this depends on the level of the increase. Several witnesses at the hearing were certain that a fairly large increase to the allowance rate would be needed to actually attract additional milk to fluid plants. Of major concern is the cheese plant located in Corona and its ability to attract milk over fluid plants. Will the cheese plant in Corona simply increase their premiums and continue to attract nearby milk into the plant? We realize that the cheese plant must stay competitive and therefore must have some limit on their premiums but we are unconvinced that the allowance rate could be increased enough to offset potential premium increases offered by the cheese plant. It is clear, however, that it would potentially take an allowance that is far greater than the one currently in place. An allowance rate of $0.20 that was suggested by one witness runs the risk of exceeding actual hauling costs of some producers. At the very least, it would result in an "incentive" far greater than previously supported by Department rationale. Unfortunately, this possible action does not come with the guarantee to change current milk movement patterns. This potential overcompensation and resulting increased cost to the pool would not be consistent with WUD policy.

One suggestion we can offer to the Department is to review the results of the addition of the $0.09 allowance for the closer-in bracket in Southern California that was implemented as a result of the June 2003 hearing. Is there data available that can help ascertain if the addition of this "incentive" attracted additional local milk to the fluid market? Perhaps this can help the Department glean information on the potential result of increasing the rate. Also, is it possible to determine the premiums paid to producers from the local cheese plant in the area? This could help determine if a small increase to the allowance would make a difference in attracting local milk.

Finally, we once again urge the Department to eliminate the transportation credit for condensed skim. Its existence (even coupled with the differential) could not maintain what the Department has shown as "less costly" plant-to-plant movement of condensed skim. Obviously, the availability of the credit has done nothing but increase costs to the pool, allowing the same milk to receive transportation allowances and credits and the same product to receive transportation credits and fortification allowances. Producers should not be required to fund this "double-dipping" as it is far beyond the original intent of the transportation incentive system developed in California. Thank you for your consideration. Please feel free to contact me with any questions.

Very truly yours,

Michael L. H. Marsh, CPA
Chief Executive Officer

cc: Board of Directors, Western United Dairymen