



June 10, 2011

The Honorable Karen Ross, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Re: Alternative Proposal for the June 30-July 1, 2011 Class 4a and 4b Hearing

Dear Secretary Ross:

The attached extracts from the current Stabilization and Marketing Plans for Northern California and Southern California reflect Dairy Institute's proposed amendments to the Class 4a, and 4b price formulas in the two marketing areas of the state. These proposals respond to the Notice of Public Hearing dated May 25, 2011. The Department of Food and Agriculture called the hearing in response to petitions from California Dairies, Inc. and Land O' Lakes, Inc.

Description of requested changes:

The Institute's proposed changes to the Class 4b formula are shown below. Items that have changed relative to the current formula are *highlighted*.

Class 4b

Current Formula:

$$\begin{aligned} \text{Cheese CWT} = & (\text{CME 40\# Cheddar Block Price } -\$0.0252 - \$0.1988) \times 10.2 \\ & + (\text{CME Butter Price } -\$0.10 - \$0.156) \times 0.27 \\ & + \$0.25 \end{aligned}$$

$$\text{Fat} = \text{Class 4a Fat Price}$$

$$\text{SNF} = (\text{Cheese CWT} - (3.72 \times \text{Class 4b fat price}))/8.8$$

Proposed Formula:

$$\begin{aligned} \text{Cheese CWT} = & (\text{CME 40\# Cheddar Block Price} - \$0.0252 - \$0.1988) \times 10.2 \\ & + (\text{CME Butter Price} - \$0.10 - \$0.156) \times 0.27 \\ & + \text{Whey Contribution based on the following schedule} \end{aligned}$$

<u>Whey Price</u> (\$/lb.)	<u>Whey Contribution to the Class 4b Price</u> (\$/cwt.)
< 0.35	0.25
>= 0.35 and < 0.40	0.35
>= 0.40 and < 0.45	0.45
>= 0.45 and < 0.50	0.55
>= 0.50 and < 0.55	0.65
>= 0.55	0.75

Fat = Class 4a Fat Price

$$\text{SNF} = (\text{Cheese CWT} - (3.72 \times \text{Class 4b fat price})) / 8.8$$

The whey price series used in the proposed formula would be the weighted average of the weekly United States dry whey prices first published between the 26th of the prior month and the 25th of the current month as revised and reported as of the 25th of the current month in the U.S. Department of Agriculture's *Dairy Product Prices* report compiled by the National Agricultural Statistics Service (NASS).

The changes are proposed to make the Class 4b pricing formula better reflect the current market situation and to balance the needs of producers and the diverse types of cheese plants that operate in the state of California.

Sincerely,

William Schiek
Economist

cc Sandra Schubert, Undersecretary
Kevin Masuhara
Candace Gates

Extracts from Northern California Stabilization Plan 54 and Southern California Stabilization Plan 69.

I. Article III - Class Prices

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

.
. .
.

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

- (1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:
 - (a) The price per hundredweight computed by the formula using the Cheddar cheese price, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of nineteen and eighty-eight hundredths cents (\$0.1988), all multiplied by a yield factor of ten and two-tenths (10.2).
 - (b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of fifteen and six tenths cents (\$0.156), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
 - (c) ~~The constant whey factor of twenty-five cents per hundredweight (\$0.25).~~
The whey factor contribution that is related to the price of dry whey as specified in the following schedule:

<u>Dry Whey Price in dollars per pound</u>	<u>Whey Factor Contribution to the Class 4b Price in dollars per hundredweight</u>
<i>Up to 0.3499</i>	<i>0.25</i>
<i>0.3500 to 0.3999</i>	<i>0.35</i>
<i>0.4000 to 0.4499</i>	<i>0.45</i>
<i>0.4500 to 0.4999</i>	<i>0.55</i>
<i>0.5000 to 0.5499</i>	<i>0.65</i>
<i>0.5500 or higher</i>	<i>0.75</i>

- (2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
- (3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).
- (4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (6) **The dry whey price used in the calculations pursuant to this Paragraph shall be the weighted average of the most recent weekly United States dry whey prices, first published beginning the 26th day of the previous month and concluding the 25th day of the current month, as revised and reported as of the 25th day of the current month in the U.S. Department of Agriculture's *Dairy Product Prices* report compiled by the National Agricultural Statistics Service (NASS).**
- (7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.
- (8) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.
- (9) **In the event that the United States dry whey price reported by NASS is not available to calculate the Cheese hundredweight price pursuant to Subparagraph (E)(1), then used in its place shall be the United States dry whey price used in the prior month's calculation of the Cheese hundredweight price.**