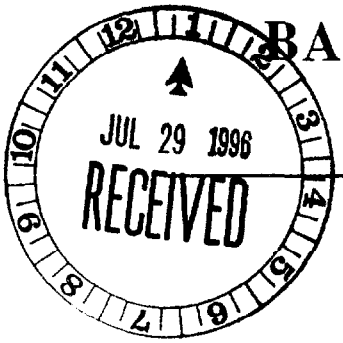
FOR-84



BASIC FORMULA PRICE COMMITTEE
DAIRY DIVISION AMS
USDA

-TESTIMONY-

Western United Dairymen
Madison, Wisconsin
July 29, 1996

Jay F. Goold
Executive Vice President

Members of the Committee:

My name is Jay Goold, Executive Vice President, Western United Dairymen. Western United Dairymen is a trade association located in Modesto, California. We have approximately 1250 producer members. I estimate their production to exceed 12 billion pounds annually, or about 8% of the national supply.

We recognize that we are not a part of the Federal Milk Marketing Order system at the present time. However, there is a possibility that we may be a part of the federal system in the future; therefore, we appreciate the opportunity to appear before you today.

We wish to speak to the following issues:

Pricing Issues

1. **Class 1 - Moving the Lower Class 1 Differentials to a Higher Number**

2. **Product Value Pricing**

   a) Selection of Price Series (National Exchanges)
      * National Cheese Exchange = 40 lb Blocks
      * Chicago Mercantile Exchange = Grade AA Butter
      * California Plant Weighted Weekly Average = Non-Fat Dry Milk

   b) Make Allowance
      * Audited Costs
      * Regional as per each Order
      * Transportation Differentials

3. **Multiple Component Pricing**

   a) All Classes
      * Class Usage Defined by Impact on Product Yield
      * Five (5) Classes

   b) Class 1 - Butter Fat / Solids / Fluid Carrier

4. **Identify the Issue of the Relationship Between Butter, Powder/Cheese Prices**

5. **De-Pooling**

a) Tighter Control
   * More Plants Pooled
   * Elect Option / Stay With That Option Two (2) Years

b) Larger Orders Less in/out options

6. **Emergency Powers**

As you can see, the first item is tangentially related to price discovery. However, we want to go on record as opposing adjusting the Class 1 differentials downward toward the low-end differentials. It is very important that the funds generated by higher Class 1 differentials flow into the pools.

We strongly recommend to this panel the use of product value pricing, or end product pricing. As we move away from the times of support price purchases, we must respect that the market for end products will be the market signal sender that must be listened to.

There is an important correlation between the price that a manufacturer can move his product and the price he can pay for the raw product. We feel the weekly activity on the exchanges, properly managed, monitored, and recorded, is a current market signal which must reach the dairymen.

In an effort to keep our dairymen appraised of these signals, we publish a weekly update showing value movement and try to assist the dairymen in the ramifications to their production decisions.

------ *WEEKLY UPDATE* ------

TO: Western United Dairymen Members
FROM: Jay Goold, Executive Vice President and Staff *DATE*: July 26, 1996

COMMODITY MARKETS - CHICAGO GREEN BAY - CALIFORNIA PLANTS

Report	AA Butter	B Butter	NFDM	40# Blocks	Barrels
Apr. Avg.	**$0.7462**	**$0.6775**	**$1.0810**	**$1.4175**	**$1.3762**
May Avg.	**$0.9230**	**$0.8600**	**$1.0884**	**$1.4925**	**$1.4475**
June Avg.	**$1.3475**	**$1.2875**	**$1.1616**	**$1.4925**	**$1.4475**
July Avg.	**$1.5150**	**$1.4475**	**$1.2252**	**$1.5425**	**$1.4956**
July 19	$1.5300	$1.4700	$1.2451	$1.6000	$1.5575
July 26	$1.5300	$1.4500		$1.6200	$1.5775

JUNE POOL PRICES: Quota: $14.67 -- Overbase: $12.97
ESTIMATE JULY PRICES: 4a: $15.06 -- 4b: $13.48

Note: **Our June Pool estimates were based upon CDFA projections and were a little high due to drop in Class 1 sales.**

The use of product value/end product pricing as the basic element in a pricing system mandates a make allowance either precise or estimate.

We strongly recommend a plant cost audited make allowance. We attach copies of the last audited costs published in California (see Attachments A-B-C). We have been using this audit cost--public hearing review system for several decades. It works well. Its fault is that it may be a little too generous to some plants. However, each producer is in critical need for a plant each time his tank is full. This system almost guarantees that the most efficient plants will exist to empty that tank at a fair and reasonable price.

Since some plants are a considerable distance from point of product sale, each pricing system should provide for transportation differences.

We strongly support multi-component pricing. We have watched and listened to Mike Brown's explanation of the National All Jersey proposal. We feel he has laid out the case very well for multi-component pricing and do not want to be redundant. We know it works well for all breeds of cows and buyers of milk for all products. We will have to make changes in our pricing and programs to accommodate protein pricing. We are committed to working out a way to getting it done.

SEE ATTACHMENTS D & E

Our system of using butterfat, solids-not-fat, and fluid carrier as the multi-components in Class 1 works very well. It places the most value on fat and solids-not-fat and allows for the fluid carrier differential to be used for area price differences. This system of multi-components in Class 1 will also eventually establish equal raw product costs between processors as they seek to compete on product nutrient quality.

The issue has been raised concerning a closer relationship between butter/powder milk prices and cheese milk prices. In recent months we have seen the relationship of these two milk prices do some pretty dramatic flip flops. There are expressed concerns these two prices should be snubbed together in pools where their volumes are significant. There, however, exists with that proposal the violation of the product value less make allowance system. Perhaps the removal of an overburdening surplus production will remove these fears. In any case, because the

production of non-fat dry milk is not uniform in marketing areas, the solution may best be provided in the permissive language of each order.

Our own experience shows that necessary Class price differentials can promote de-pooling to the detriment of the Pool and the dairymen remaining in the Pool. We suggest that more plants be pooled and that those which are allowed to de-pool be forced to remain de-pooled for two (2) years.

We appreciate your time and reserve the right to augment this testimony with additional written material.

CALCULATING 4a PRICES

CME Butter - CWAP Powder

3.5/8.7 Test

Price/lb CME Butter	Butterfat Contribution/cwt.
$0.65	2.1336
$0.66	2.1756
$0.67	2.2176
$0.68	2.2596
$0.69	2.3016
$0.70	2.3436
$0.71	2.3856
$0.72	2.4276
$0.73	2.4696
$0.74	2.5116
$0.75	2.5536
$0.76	2.5956
$0.77	2.6376
$0.78	2.6796
$0.79	2.7216
$0.80	2.7636
$0.81	2.8056
$0.82	2.8476
$0.83	2.8896
$0.84	2.9316
$0.85	2.9736
$0.86	3.0156
$0.87	3.0576
$0.88	3.0996
$0.89	3.1416
$0.90	3.1836
$0.91	3.2256
$0.92	3.2676
$0.93	3.3096
$0.94	3.3516
$0.95	3.3936
$0.96	3.4356
$0.97	3.4776
$0.98	3.5196
$0.99	3.5616
$1.00	3.6036
$1.02	3.6876
$1.03	3.7296
$1.04	3.7716
$1.05	3.8136
$1.06	3.8556
$1.07	3.8976
$1.08	3.9396

Price/lb CME Butter	Butterfat Contribution/cwt.
$1.09	3.9816
$1.10	4.0236
$1.11	4.0656
$1.12	4.1076
$1.13	4.1496
$1.14	4.1916
$1.15	4.2336
$1.16	4.2756
$1.17	4.3176
$1.18	4.3596
$1.19	4.4016
$1.20	4.4436
$1.21	4.4856
$1.22	4.5276
$1.23	4.5696
$1.24	4.6116
$1.25	4.6536
$1.26	4.6956
$1.27	4.7376
$1.28	4.7796
$1.29	4.8216
$1.30	4.8636
$1.31	4.9056
$1.32	4.9476
$1.33	4.9896
$1.34	5.0316
$1.35	5.0736
$1.36	5.1156
$1.37	5.1576
$1.38	5.1996
$1.39	5.2416
$1.40	5.2836
$1.41	5.3256
$1.42	5.3676
$1.43	5.4096
$1.44	5.4516
$1.45	5.4936
$1.46	5.5356
$1.47	5.5776
$1.48	5.6196
$1.49	5.6616
$1.50	5.7036

SNF POWDER PRICE CONVERTED TO 100lbs. PRICE	
$1.05	7.8378
$1.06	7.9240
$1.07	8.0101
$1.08	8.0962
$1.09	8.1824
$1.10	8.2685
$1.11	8.3546
$1.12	8.4407
$1.13	8.5269
$1.14	8.6130
$1.15	8.6991
$1.16	8.7853
$1.17	8.8714
$1.18	8.9575
$1.19	9.0437
$1.20	9.1298
$1.21	9.2159
$1.22	9.3020
$1.23	9.3882
$1.24	9.4743
$1.25	9.5604
$1.26	9.6466
$1.27	9.7327
$1.28	9.8188
$1.29	9.9050
$1.30	9.9911
$1.31	10.0772
$1.32	10.1633
$1.33	10.2495
$1.34	10.3356
$1.35	10.4217
$1.36	10.5079
$1.37	10.5940
$1.38	10.6801
$1.39	10.7663
$1.40	10.8524
$1.41	10.9385
$1.42	11.0246
$1.43	11.1108
$1.44	11.1969
$1.45	11.2830
$1.46	11.3692
$1.47	11.4553

CWT. Value: _____ (Butterfat Value) + _____ (Powder Value) = _____ (CWT)

Example: *5.0736* (Butterfat Value) + *8.8714* (Powder Value) = *$13.94 - 4a* (CWT)

(CME Butter $1.35 = 5.0736)

(SNF Powder Price $1.17 = 8.8714)

CALCULATING 4b PRICES

NCE Cheese Price
CME Grade B Butter

NCE	Cheese Value	CME Grade B	B Butter Value
$1.12	9.2120	$0.65	0.1493
$1.13	9.3100	$0.67	0.1547
$1.14	9.4080	$0.69	0.1601
$1.15	9.5060	$0.71	0.1655
$1.16	9.6040	$0.73	0.1709
$1.17	9.7020	$0.75	0.1763
$1.18	9.8000	$0.77	0.1817
$1.19	9.8980	$0.79	0.1871
$1.20	9.9960	$0.81	0.1925
$1.21	10.0940	$0.83	0.1979
$1.22	10.1920	$0.85	0.2033
$1.23	10.2900	$0.87	0.2087
$1.24	10.3880	$0.89	0.2141
$1.25	10.4860	$0.91	0.2195
$1.26	10.5840	$0.93	0.2249
$1.27	10.6820	$0.95	0.2303
$1.28	10.7800	$0.97	0.2357
$1.29	10.8780	$0.99	0.2411
$1.30	10.9760	$1.01	0.2465
$1.31	11.0740	$1.03	0.2519
$1.32	11.1720	$1.05	0.2573
$1.33	11.2700	$1.07	0.2627
$1.34	11.3680	$1.09	0.2681
$1.35	11.4660	$1.11	0.2735
$1.36	11.5640	$1.13	0.2789
$1.37	11.6620	$1.15	0.2843
$1.38	11.7600	$1.17	0.2897
$1.39	11.8580	$1.19	0.2951
$1.40	11.9560	$1.21	0.3005
$1.41	12.0540	$1.23	0.3059
$1.42	12.1520	$1.25	0.3113
$1.43	12.2500	$1.27	0.3167
$1.44	12.3480	$1.29	0.3221
$1.45	12.4460	$1.31	0.3275
$1.46	12.5440	$1.33	0.3329
$1.47	12.6420	$1.35	0.3383
$1.48	12.7400	$1.37	0.3437
$1.49	12.8380	$1.39	0.3491
$1.50	12.9360	$1.41	0.3545
$1.51	13.0340	$1.43	0.3599
$1.52	13.1320	$1.45	0.3653
$1.53	13.2300	$1.47	0.3707
$1.54	13.3280	$1.49	0.3761
$1.55	13.4260	$1.51	0.3815

CWT Value: _____ (Cheese Value) + _____ (Butter Value) = _____ (CWT)

Example: *11.4660* (Cheese Value) + *0.2735* (Butter Value) = *$11.74 - 4b* (CWT)

(NCE Cheese $1.35 = 11.466) (CME Grade B $1.11 = 0.2735)

ATTACHMENT "A"

BUTTER PROCESSING COSTS

FOR SELECTED PERIODS, CALIFORNIA, JULY 1993 TO APRIL 1995 1/
QUANTITY WEIGHTED AVERAGE PROCESSING COSTS 2/

PLANT GROUPS RANKED BY LOWEST COST 4/	NO. OF PLANTS IN GROUP	MISC. INGREDIENT	PACKAGE	PROCESSING LABOR	PROCESSING NONLABOR	GENERAL & ADMINIST. 3/	TOTAL OPERATING COSTS	VOLUME COVERED 5/ 6/	RETURN ON INVESTMENT	TO CO
		($/lb.)						(percent)	($/lb.)	
GROUP 1	3	0.0024	0.0107	0.0306	0.0267	0.0062	0.0767	20.1%	0.0028	0
GROUP 2	3	0.0024	0.0088	0.0334	0.0365	0.0063	0.0874	70.0%	0.0095	0.
GROUP 3	3	0.0026	0.0098	0.0472	0.0388	0.0141	0.1124	94.6%	0.0072	0.
STATISTICS FOR 9 PLANTS										
SIMPLE AVERAGE		0.0024	0.0099	0.0389	0.0342	0.0090	0.0943	78.0%	0.0060	0.
WEIGHTED AVERAGE 2/		0.0025	0.0100	0.0350	0.0319	0.0080	0.0873	70.0%	0.0055	0.
MEDIAN		0.0023	0.0100	0.0330	0.0328	0.0088	0.0869	70.0%	0.0051	0.

1/ COSTS REFLECT SELECTED ANNUAL PERIODS FROM JULY 1993 TO APRIL 1995.
2/ WEIGHTED BY POUNDS OF PRODUCT PROCESSED BY EACH PLANT.
3/ ACTUAL GENERAL AND ADMINISTRATIVE COSTS.
4/ PLANTS HAVE BEEN GROUPED ON THE BASIS OF PROGRESSIVELY INCREASING PROCESSING COSTS WITH THE FIRST GROUP BE
5/ THE VOLUME COVERED IS THE CUMULATIVE VOLUME OF ALL PLANTS WHOSE ACTUAL COSTS ARE LESS THAN OR EQUAL TO THE
6/ INCLUDES BOTH BLOCK AND CUT BUTTER FOR VOLUME. COSTS ARE FOR 55 AND 68 LB. BLOCKS OF BUTTER ONLY.
7/ THESE NINE PLANTS PROCESSED 92.6% OF THE BUTTER IN CALIFORNIA IN 1994.

DAIRY MARKETING BRANCH, CDFA
NOVEMBER 1995

ATTACHMENT "B"

POWDER PROCESSING COSTS

FOR SELECTED PERIODS, CALIFORNIA, JULY 1993 TO APRIL 1995 1/
QUANTITY WEIGHTED AVERAGE PROCESSING COSTS 2/

PLANT GROUPS RANKED BY LOWEST COST 4/	NO. OF PLANTS IN GROUP	PACKAGE	PROCESSING LABOR	PROCESSING NONLABOR	GENERAL & ADMINIST. 3/	TOTAL OPERATING COSTS	VOLUME COVERED 5/ 6/	RETURN ON INVESTMENT	TOTAL COST	VOL PROC 6/
		($/lb.)					(percent)	($/lb.)		
GROUP 1	3	0.0144	0.0309	0.0591	0.0060	0.1104	23.5%	0.0142	0.1246	23
GROUP 2	3	0.0141	0.0353	0.0648	0.0093	0.1235	83.7%	0.0134	0.1370	14
GROUP 3	3	0.0105	0.0625	0.0710	0.0151	0.1591	93.8%	0.0048	0.1639	4
										42
STATISTICS FOR 9 PLANTS										
SIMPLE AVERAGE		0.0129	0.0444	0.0645	0.0098	0.1315	83.7%	0.0117	0.1431	
WEIGHTED AVERAGE 2/		0.0139	0.0357	0.0622	0.0080	0.1198	61.2%	0.0130	0.1328	
MEDIAN		0.0139	0.0361	0.0666	0.0092	0.1258	83.7%	0.0122	0.1380	

1/ COSTS REFLECT SELECTED ANNUAL PERIODS FROM JULY 1993 TO APRIL 1995.
2/ WEIGHTED BY POUNDS OF PRODUCT PROCESSED BY EACH PLANT.
3/ ACTUAL GENERAL AND ADMINISTRATIVE COSTS.
4/ PLANTS HAVE BEEN GROUPED ON THE BASIS OF PROGRESSIVELY INCREASING PROCESSING COSTS WITH THE FIRST GROUP BE
5/ THE VOLUME COVERED IS THE CUMULATIVE VOLUME OF ALL PLANTS WHOSE ACTUAL COSTS ARE LESS THAN OR EQUAL TO THE
6/ INCLUDES ALL GRADES OF NONFAT DRY MILK IN ALL SIZE CONTAINERS FOR VOLUME. COSTS ARE FOR 50 AND 55 LB. BAGS OF NF
7/ THESE NINE PLANTS PROCESSED 92.5% OF THE NONFAT DRY MILK IN CALIFORNIA IN 1994.

DAIRY MARKETING BRANCH, CDFA
NOVEMBER 1995

ATTACHMENT "C"

CHEDDAR CHEESE PROCESSING COSTS

FOR SELECTED PERIODS, CALIFORNIA, JULY 1993 TO APRIL 1995 1/
QUANTITY WEIGHTED AVERAGE PROCESSING COSTS 2/

PLANT GROUPS RANKED BY LOWEST COST 4/	NO. OF PLANTS IN GROUP	MISC. INGREDIENT	PACKAGE	-- PROCESSING -- LABOR	-- PROCESSING -- NONLABOR	GENERAL & ADMINIST. 3/	TOTAL OPERATING COSTS	VOLUME COVERED 5/ 6/	RETURN ON INVESTMENT	TOTAL COST	VOLUME PROCESSED 6/ 7/	FIN MOI
		($/lb.)						(percent)	($/lb.)		(lbs.)	
GROUP 1	4	0.0161	0.0200	0.0499	0.0702	0.0195	0.1758	45.3%	0.0123	0.1880	197,421,151	
GROUP 2	4	0.0166	0.0222	0.0736	0.0823	0.0215	0.2162	94.0%	0.0127	0.2288	64,183,096	
											261,604,247	
STATISTICS FOR 8 PLANTS												
SIMPLE AVERAGE		0.0171	0.0208	0.0552	0.0797	0.0239	0.2067	94.0%	0.0123	0.2189		
WEIGHTED AVERAGE 2/		0.0162	0.0205	0.0557	0.0732	0.0200	0.1857	80.9%	0.0124	0.1981		
MEDIAN		0.0147	0.0205	0.0618	0.0579	0.0205	0.1853	80.9%	0.0123	0.1976		

1/ COSTS REFLECT SELECTED ANNUAL PERIODS FROM JULY 1993 TO APRIL 1995.
2/ WEIGHTED BY POUNDS OF PRODUCT PROCESSED BY EACH PLANT.
3/ ACTUAL GENERAL AND ADMINISTRATIVE COSTS.
4/ PLANTS HAVE BEEN GROUPED ON THE BASIS OF PROGRESSIVELY INCREASING PROCESSING COSTS WITH THE FIRST GROUP BEING THE LOWEST COST
5/ THE VOLUME COVERED IS THE CUMULATIVE VOLUME OF ALL PLANTS WHOSE ACTUAL COSTS ARE LESS THAN OR EQUAL TO THE LISTED AVERAGE COST.
6/ INCLUDES BOTH CHEDDAR AND MONTEREY JACK FOR VOLUME. COSTS, MOISTURE, FAT, SNF AND YIELDS ARE FOR 40 LB. BLOCKS OF CHEDDAR ONLY.
7/ THESE EIGHT PLANTS PROCESSED 73.8% OF THE CHEDDAR AND MONTEREY JACK CHEESE IN CALIFORNIA IN 1994.
THE DECLINE FROM 97.0% TO 73.8% RESULTS FROM THE ELIMINATION OF PLANTS WHICH ONLY PRODUCE 640 LB. BLOCKS.

DAIRY MARKETING BRANCH, CDFA
NOVEMBER 1995

ATTACHMENT "D"

STATE OF CALIFORNIA — PETE WILSON, Governor

DEPARTMENT OF FOOD AND AGRICULTURE
1220 N Street
Sacramento, CA 95814-5621

For Information Call :
(916) 654-0905 1/

July 1, 1996

MINIMUM PRICES FOR CLASSES 1, 2, 3, 4a, AND 4b MARKET MILK F. O. B. PLANT FOR JUNE, JULY, AUGUST AND SEPTEMBER 1996

In accordance with the provisions of the effective Stabilization and Marketing Plans for Market Milk, handlers shall pay producers the minimum prices for market milk components sold or used for Classes 1, 2, 3, 4a and 4b purposes as specified below.

If market milk components are purchased f.o.b. producer's dairy location, haul deductions may be made in accordance with the provisions of the effective Stabilization and Marketing Plan for the Marketing Area concerned.

PRODUCER PRICE F.O.B. PLANT, DOLLARS

MARKETING AREA	CLASS	LB. FAT	LB. SNF	LB. FLUID	EQUIVALENT PER CWT. 2/
June 1996 3/					
All Areas	4a	$1.4466	$1.0255	---	$13.98
All Areas	4b	$1.4466	$0.9281	---	$13.14
June and July 1996 4/					
Southern California	2	$0.8705	$1.0287	---	$12.00
	3	$0.8705	$0.9972	---	$11.72
Northern California and South Valley	2	$0.8682	$1.0029	---	$11.76
	3	$0.8682	$0.9972	---	$11.71
August and September 1996 5/					
Northern California	1	$1.2333	$1.0512	$0.0333	$16.39
South Valley	1	$1.2333	$1.0512	$0.0315	$16.23
Southern California	1	$1.2383	$1.0512	$0.0358	$16.62

Statewide average Class 1 price = $16.38 6/

FOOTNOTES

1/ Price information is available on a recorded message. Please call 1-800-503-3490. In Sacramento or out of California, please call (916) 442-MILK.

2/ On basis of 3.5% Fat, 8.7% Solids-Not-Fat, and 87.8% fluid where applicable.

David K. Ikari, Chief
Dairy Marketing Branch

See reverse side for explanation of remainder of footnotes

ATTACHMENT "E"

3/ MARKET DATA, JUNE 1996

California FOB Plant Prices	DOLLARS PER LB.	Central Commercial Commodity Prices	DOLLARS PER LB.
		Grade AA Butter (Weekly Simple Average)	$1.3475
		Grade B Butter (Weekly Simple Average)	$1.2875
		Simple Average Weekly National Cheese Exchange Block Cheddar	$1.4925
Extra Grade & Grade Nonfat Dry Milk	$1.1759		

4/ Class 2 and 3 Fat and SNF prices are based upon the simple average of the respective Class 4a Fat and SNF component prices for April and May 1996.

5/ *CLASS 1 PRICE CHANGE CALCULATION FOR AUGUST AND SEPTEMBER 1996*

$14.8587	May 1996 Commodity Reference Price
$15.7875	June 1996 Commodity Reference Price
$15.3231	Average May-June 1996 Commodity Reference Price

Therefore, a price change of $5.1447 was determined by subtracting the statewide base price of $10.1784 from $15.3231 ($15.3231 $10.1784 = $5.1447). The allocation of the $5.1447 price change to the milk components is shown below. The $10.1784 formula statewide average base price was computed at 3.5% milk fat, 8.7% solids-not-fat, and 87.8% fluid carrier.

ALLOCATION OF CLASS 1 PRICE CHANGE TO COMPONENTS

BUTTERFAT	
$\frac{0.40 \times 5.1447}{3.5} = \frac{2.0579}{3.5}$ = $0.5880/lb.	To be added to the butterfat component as shown in Section 300.0(A)(1)(a) and Section 300.0(A)(3)(a) of the Stabilization and Marketing Plans for each marketing area.
SOLIDS-NOT-FAT	
$\frac{0.40 \times 5.1447}{8.7} = \frac{2.0579}{8.7}$ = $0.2365/lb.	To be added to the solids-not-fat component as shown in Section 300.0(A)(1)(b) and Section 300.0 (A)(3)(b) of the Stabilization and Marketing Plans for each marketing area.
FLUID CARRIER	
$\frac{0.20 \times 5.1447}{87.8} = \frac{1.0289}{87.8}$ = $0.0117/lb.	To be added to the fluid carrier component as shown in Section 300.0(A)(1)(c) and Section 300.0 (A)(3)(c) of the Stabilization and Marketing Plans for each marketing area.

6/ Weighted average based on marketing area production.

The August/September 1996 Class 2 and 3 and July 1996 Class 4a and 4b price announcements will be issued no earlier than 4:00 p.m. on August 1, 1996.

June 1996 COMMODITY REFERENCE PRICE $15.7875