



# SECURITY MILK PRODUCERS ASSOCIATION

1920 S. Archibald, Suite I • Ontario, CA 91761-8504

TEL: (909) 947-8782 • FAX: (909) 947-2721

*John B*  
*CC*

FACSIMILE FROM: Kevin McLaughlin (ext 223)

DATE: 6/16/97

ATTENTION: RICH MCKEE

COMPANY: USDA - AMS

FAX No. 202 690 - 3410

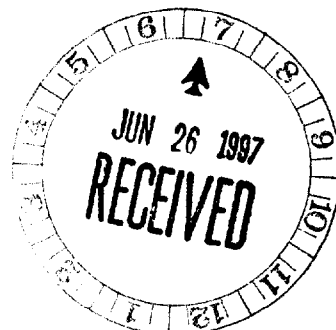
No. of PAGES (Including this page): 9

MESSAGE:

PLEASE PROVIDE COPIES OF THESE COMMENTS  
TO THE PRICE STRUCTURE COMMITTEE AND TO  
EACH OF THE OTHER COMMITTEES FOR CONSIDERATION.

THANK YOU,  
KEVIN

Please call if there are any problems with receipt of this fax.  
Thanks!





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June 16, 1997

Mr. Richard M. McKee, Director  
Dairy Division  
USDA / AMS, Room 2968, South Building  
Post Office Box 96456  
Washington, DC 20090-6456

Dear Mr. McKee:

Our previous correspondence with the Dairy Division addressed concerns regarding Order Consolidation, specifically the suggested Western and Southwestern Federal Marketing Orders, and more specifically the State of Arizona and the Clark County area of southern Nevada. Milk moves between both these areas and southern California on a daily basis, as indicated previously. We are very pleased that the committees involved with Order consolidation recognized our concerns, and the concerns of others, and formulated an eleventh Order. We are now seeking to address the other Reform Committees' Preliminary Reports and how we believe they impact on the newly proposed Arizona - Las Vegas Federal Order.

### Price Structure

Security Milk Producers Association supports maintaining a Basic Formula Price (BFP) plus some form of Class I Differential system. It is assumed that the replacement for the BFP will continue to be market driven as required by the Agricultural Marketing Agreement Act of 1937. That being true, one mechanism for USDA to utilize in an attempt to maintain some adequacy of income to producers, is a Class I differential of at least \$2.00 per cwt. The California Department of Food and Agriculture recently approved, through the hearing process, a reduction in the State's Class I price. The June/July Class I price is \$2.00 per cwt. less than what it would have been had there been no decision to reduce the price. The only justification given was that California's Class I prices were too high in relation to contiguous states. This will result in a projected loss, in June, of \$.32 per cwt. in producer pay checks. The reduction saved bottlers \$2.00 per cwt. or about \$.17 per gallon in raw product cost.

Fluctuations in market signals, and supply and demand, will result in a BFP that will be, at times above and, below the cost of producing milk. Coupled with a production variance of up to 30% from Spring to late Summer, the desert areas of the southwestern United States should have a differential high enough to ensure market demand is met. The current differential, in Phoenix, of \$2.52 per cwt. was set after careful analysis of that area's yearly supply and demand, and seems adequate. The Las Vegas area, however, currently has a differential of \$1.60 per cwt. This number needs to be examined. Salt Lake City, Utah has a \$1.90 differential, today, which may or may not be supported (we plead ignorance, as we have no experience to draw from in that area), but the milk supply is closer, and the cost of production is lower than in Las Vegas. It is our belief

that a Class I differential of between \$2.00 and \$2.20 per cwt. is justified in Las Vegas to ensure an adequate supply there.

### Classifications of Milk

The Classification Committee's original recommendation that Orders be amended to provide three classes of milk is supported by SMPA. Should, despite their recommendation, the decision be made to provide a separate classification for NFD and other products (Class IV??), we believe it is in the dairy producers best interest to floor the Class IV price at Class III levels and allow market forces to dictate whether an up-charge should be provided on reconstituted NFD used in higher valued classes of products. The USDA's University Study Committee concluded that, (roughly paraphrased), "...the Class IIIa system, today, is undermining the current Class II and Class III prices as witnessed by the increasing use of NFD to make soft products and cheese. Eliminating Class IIIa will better allow market forces to allocate supply..."

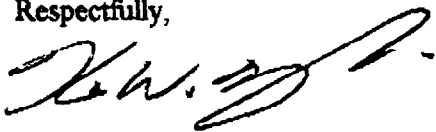
### Identical Provisions Committee

The Identical Provisions Committee recommendations appear straightforward and concise. SMPA supports advance payments to producers for first 15 days production paid at the prior month's Class III price, and final payments or settlements to be paid at announced Producer Uniform Price by the 15th of the month. SMPA also acknowledges the risks associated with being a Producer / Handler (P/H), and agree with the committee's recommendation to maintain P/H exemptions and to have a means with which to determine and verify such status. The only thing we can suggest is that P/H definitions should apply to all Orders, equally.

In summary, we wish to extend our gratitude to USDA for the open manner in which the Reform process is being addressed. It is comforting to know that these regulations are being drafted with all sectors of the industry having the ability to comment on their particular concerns in this manner.

Mr. McKee, I appreciate the opportunity to comment on these very important issues to you and your staff. If further clarification can be offered regarding any of the issues addressed in this letter, please call me at (909) 947-8782 extension 223.

Respectfully,



Kevin W. McLaughlin  
Fluid Operations

Attachments

STATE OF CALIFORNIA

PETE WILSON, Governor

## DEPARTMENT OF FOOD AND AGRICULTURE

1220 N Street, Room A-224  
Sacramento, CA 95814-5621  
Phone (916) 654-1456  
Fax (916) 654-0867



**NOTICE OF PUBLIC HEARINGS PURSUANT TO  
SECTION 62062.1 OF THE FOOD & AGRICULTURAL CODE  
TO CONSIDER AMENDMENTS TO THE CLASS 1 MILK  
PRICING FORMULAS AS PROVIDED IN THE STABILIZATION  
AND MARKETING PLANS FOR MARKET MILK FOR THE  
NORTHERN CALIFORNIA AND SOUTHERN CALIFORNIA  
MARKETING AREAS**

Notice is hereby given that the California Department of Food and Agriculture, acting pursuant to the provisions of Section 62062.1 of the Food and Agricultural Code (Code), is calling public hearings to consider adjustments to the Class 1 pricing formulas pursuant to the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas (Plans).

There will be a hearing in each of the two Marketing Areas. The hearing for the Southern California Plan will be held on February 5, 1997, at the Red Lion Inn, 222 North Vineyard Avenue, in Ontario. The hearing for the Northern California Plan will be held on February 7, 1997, at the California Department of Food and Agriculture's Auditorium at 1220 N Street in Sacramento. Both hearings will begin at 9:30 a.m.

In accordance with Section 62062.1 of the Code, the Department has reviewed California Class 1 farm prices for 1996 and compared them to Class I farm prices in neighboring states. Based upon this review, the Department has determined that California's Class 1 farm prices are not in reasonable relationship to Class I farm prices in contiguous states and, in compliance with the Code, is therefore calling a public hearing for each Marketing Area to consider adjustments to the pricing formulas.

The call of these hearings is limited to consideration of adjustments to the Northern California and Southern California pricing formula for Class 1 milk farm prices. (Reference Article III, Sections 300.0, Paragraphs (A), (F), (G), and (I) of the Stabilization and Marketing Plan for Market Milk for the Northern California and Southern California Marketing Areas.) Consideration will also be given to changes in transportation credits to the extent needed to match any changes in the difference between the Northern California and the Southern California Class 1 prices. (Reference Article III, Section 300.2 of the Stabilization and Marketing Plans for the Northern California and Southern California Marketing Areas).

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Notice of Public Hearing  
Page Two

Testimony and evidence will be received at the above hearings from anyone wishing to testify. Interested parties are encouraged to submit specific proposals detailing proposed adjustments to the pricing formulas for Class 1 milk in the Northern California and Southern California Marketing Areas. Proposals must be received at the Department's Dairy Marketing Branch at the above address by 4:30 p.m. on January 8, 1997.

To assist interested persons in preparing for the hearings, a public workshop will be held in Sacramento on January 22, 1997. The workshop will be held in Room 102 in the Department's headquarters at 1220 N Street. The workshop will begin at 9:30 a.m. At this workshop, interested persons can review and discuss all proposals submitted with Department staff and other interested parties. The workshop will be informal and educational in nature. The discussion during the workshop will not be part of the official hearing record.

Copies of the Departmental analysis of proposals submitted will be available at the public workshop on January 22, 1997. The Department's entire hearing exhibit will be available for public inspection at the Sacramento office of the Dairy Marketing Branch on January 29, 1997.

If you have any questions or need assistance in developing language for a proposal, please contact Elton Brooks, Tom Gossard or Bob Maxie at (916) 654-1456. Copies of proposals submitted may be obtained from Jeannie Tijerina at the same number.

All interested persons are invited to attend and participate in the public workshop and hearings. You are encouraged to present any data or information that is relevant to the consideration of any proposal submitted for consideration by the Department.

*David K. Ikari*

David K. Ikari, Chief  
Dairy Marketing Branch

Date

12/12/96

**DEPARTMENT OF FOOD AND AGRICULTURE**

1220 N Street, Room A-224  
Sacramento, CA 95814  
Phone (916) 654-1456  
Fax (916) 654-0867



March 21, 1997

**TO THE PERSON ADDRESSED:**

Public hearings were held on February 5 and February 7, 1997 in Ontario and Sacramento respectively to consider adjusting the Class 1 pricing formulas in California's two Marketing Areas. After considering all testimony and evidence the Department has determined that amendments to the Class 1 pricing formulas contained within the Stabilization and Marketing Plans for Market Milk (Plans) are warranted.

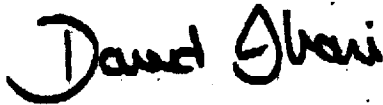
Therefore, the Department will make the following amendments to the Plans:

1. Freeze the Class 1 price at the previously announced February and March 1997 level for the two months of April and May 1997.
2. Base the future calculation of the Commodity Reference Price (CRP) upon the value of cheddar cheese and whey butter exclusively and maintain bimonthly pricing.
3. Determine the CRP on the basis of the most current month available.
4. Shift forty-two cents per hundredweight in value from the SNF to the fat component for Class 1 milk.
5. Reduce the base values of the fluid component by twenty-five cents per hundredweight in Class 1 milk.
6. Shift one and three-quarters cents per hundredweight in value from the fat to the fluid component in the Southern California Marketing Area in order to equalize the fat price between the two marketing areas.

Page Two  
March 21, 1997

If you have any questions regarding the Department's amendments to the Stabilization Plans, please contact Elton Brooks at the telephone number listed above. Copies of the Statement of Determination and Order of the Secretary are available from the Dairy Marketing Branch at the same number.

Sincerely,

A handwritten signature in black ink that reads "David Ikari". The signature is written in a cursive, slightly slanted style.

David K. Ikari, Chief  
Dairy Marketing Branch

Figure 5. Milk Consumption Points in USDSS

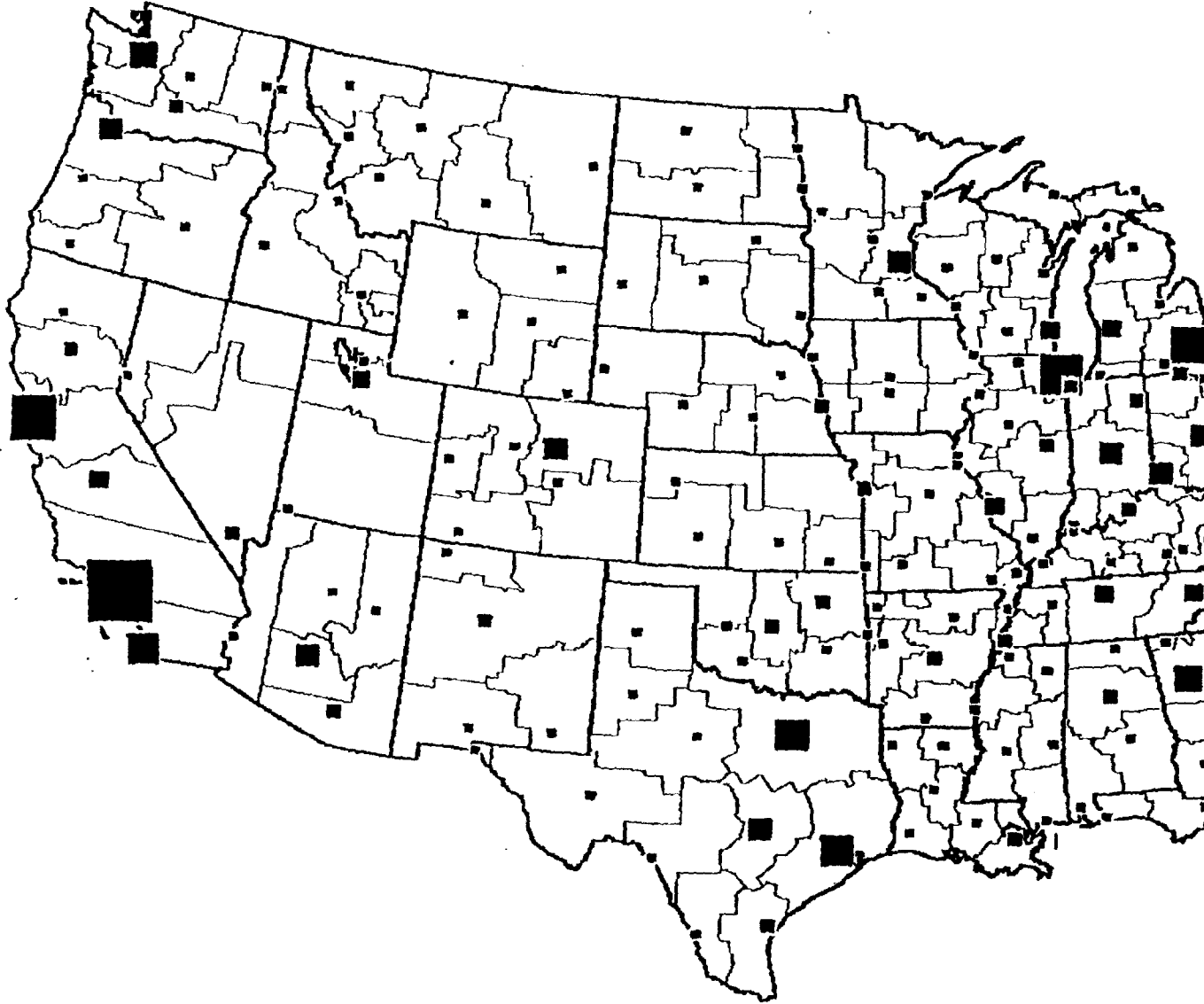




Figure 3. Milk Supply Points in USDSS

