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NORTHWEST DAIRY ASSOCIATION

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September 16, 2003

To: NDA Member Producers in Whatcom County

Re: Change in Hauling Rates and Work Stoppage Accrual Fund

This is to advise you of several important changes, including two milk check changes, that will be effective with the October 2003 final settlement that you will receive around November 20, 2003.

First, we have reviewed hauling rates throughout the Pacific Northwest market. Hauling rates in your area will increase \$.077/cwt. However, simultaneous to the haul rate increase, the \$.04/cwt location adjustment will be discontinued. This will result in a net haul rate increase of \$.037/cwt. Change is always difficult, especially when it comes to an increase in haul rates. As I mentioned at this past year's Kitchen and Annual meetings, and in our publications such as The Management Report of July's *"The Dairy Producer"* newsletter, NDA is simply moving more milk more miles. This costs money, and we can no longer afford to subsidize haul rates as we have done in the past. The revised rate computation is based on NDA's traditional hauling philosophy that (except in a few exception areas) producer hauling rates should reflect the cost of hauling their milk to "market center" (a metro area where the Class I returns of the market are generated). That number is then reduced by a "credit" that reflects the savings from not having to haul all of our milk to a market center. So your rate reflects the cost of hauling to Seattle, less a \$.12 credit.

Also effective with the October milk proceeds, we will implement a \$.05/cwt "FMMO make allowance adjustment." This is a "reblend" of costs associated with the operation of our manufacturing plants. Please note:

1. As we have explained (and will continue to discuss) during membership meetings and in our newsletters, the make allowances in the Class III and IV formulas are based on data from 1998 and 1999 and are now badly out of date, especially in that natural gas and electricity costs have more than doubled since then. We have overcome much of those cost increases through cost control efforts, from more modern equipment to project teams (which have included plant workers as well as management). The solution is for USDA to regularly update the cost assumptions in the Federal Order make allowances, as California does under their state order.

2. The $.10/cwt "Work Stoppage Accrual Fund" will end the prior month, with the deduction for September's milk. So the two will not overlap.

3. This $.05 "make allowance adjustment" is seen as an interim step in addressing the long-term situation, which has two components. First, the Federal Order must be updated. And equally important, for several other reasons, NDA's approach to capitalizing the cooperative must be reassessed. Your board of directors has commenced an intensive study of this subject (including a study of "base capital" plans. You will hear more about this as the board's work progresses during this fall and winter.

Finally, regarding the $.10/cwt "Work Stoppage Accrual Fund," when it was first announced, we told you that any unspent funds would be refunded. By now, we have spent that full amount, and more. However, at this time we do not foresee the need to extend this deduction.

When we first announced the "Work Stoppage Accrual Fund" deduction, it was our hope that the labor dispute would be settled rapidly. As we have reported in updates to the membership, the Lynden and Chehalis employees overwhelmingly approved the new contract offer. Unfortunately the Seattle union local continues to insist on more. We have drawn the line on that, and this expensive impasse continues. We appreciate the support we have received from many of you in this effort, and will continue to keep all NDA members posted on developments.

If you have any questions or comments on any of these matters, please feel free to contact me or your local board member.

Sincerely,

Doug Marshall

Doug Marshall
Sr. Vice President