



June 25, 2008

DIRECTIVE NO. 2008-105

Class 1 Pricing Methodology

Pursuant to sections 26 and 27 of the *Marketing of Agricultural Products Act* and section 9 of the *Alberta Milk Marketing Regulation*, Alberta Milk has made a regulatory amendment that transfers pricing authority from the provincial government to Alberta Milk for Class 1 pricing so that industrial and class 1 pricing is done in a similar manner.

Definitions

1. The definitions in the *Alberta Milk Marketing Regulation* apply to the interpretation of this directive.
2. “Class 1(a) milk” means milk and milk beverages in liquid form for retail and food service as prescribed in Section 27(2) of the *Alberta Milk Marketing Regulation*.
3. “Minimum price for sub-class 1a milk” means the prescribed minimum price for sub-class 1a milk that is to be paid by processors.

Principles

4. To better harmonize the price of fluid milk within the Western Milk Pool (WMP), a committee of the Western Milk Pool was established in May 2005. The mandate of the Committee was to examine options for fluid milk price harmonization within the WMP. A new methodology was approved by the four producer organization members of the Western Milk Pool. This methodology will be used to price sub-class 1 a milk in Alberta.

Procedures

5. The Western Milk Pool (WMP) provincial Boards agree to implement the following harmonized WMP fluid milk price methodology:
 - Once the fluid milk pricing authority in Alberta has been transferred from the Alberta Utilities Commission (AUC) to Alberta Milk, the WMP will establish a harmonized fluid milk price base at the Alberta price at that time plus the agreed \$1.52 per hl add-on for programs.
 - Starting February 1, 2009 and every 6 months thereafter (February 1 and August 1), the harmonized WMP fluid milk price base (before add-on) will be adjusted by percentage using the Fluid Milk Price Indexation Formula (30% national CPI, 30% national PDI and 40% national cash costs plus interests). All fluid milk price calculations (February and August) will be done using the most recent data on a 12-month basis in order to yield the same percentage change as in the P5 on an annual basis (February).
 - During the second half of 2009, there will be negotiation among processors, P5 and WMP partners to achieve a harmonized fluid milk price methodology across Canada to be implemented by February 1, 2010.

- The February pricing adjustment will be calculated to be announced by December 15 while the August fluid milk pricing calculation will be announced by June 15 at the latest.
 - The intent is to implement only half of the computed price adjustment from the formula on August 1.
 - The fluid milk price indexation formula will remain in effect until a satisfactory P10 solution is established
6. All calculations for the pricing will be done by the Canadian Dairy Commission on behalf of Alberta Milk and the Western Milk Pool.

Effective Date

7. This Directive comes into force August 1, 2008.

Bill Feenstra, Chairman

Mike Southwood, General Manager