Comments Submitted
By the
The California Dairy Campaign
To
The California Board of Food and Agriculture
On
Agricultural Vision for the Future
July 18, 2008

The California Dairy Campaign (CDC) considers the increased consolidation and concentration in the agricultural marketplace to be the greatest challenge facing farmers, ranchers and fishermen statewide. As California strives to sustain its agricultural economy into the future, it is important to address the challenges posed by the increased consolidation that has occurred to date.

Unfortunately, consolidation within the agricultural industry has increased in recent years and has brought about the demise of thousands of family-run farms. Independent producers are finding it increasingly difficult to participate in a fair, open and competitive market. The consolidation trend has spread beyond the farm gate and now threatens independent retailers. Since 1999, National Farmers Union has commissioned a series of studies by the University of Missouri-Columbia Department of Rural Sociology to gauge concentration in agricultural and retail markets. The latest update, released in February 2005, reveals that the top four firms in most agricultural sectors have tightened their strong-hold since the 2002 study.

FOOD RETAILING **CR5 = 46%***

Supermarket	Grocery Sales*
1. Wal-Mart Sores	$66.465 Billion
2. Kroger Co.	46.315 Billion
3. Albertsons, Inc.	31.962 Billion
4. Safeway, Inc.	29.572 Billion
5. Ahold USA, Inc.	25.105 Billion

Source: * *Progressive Grocer's Super 50* (5/1/04)

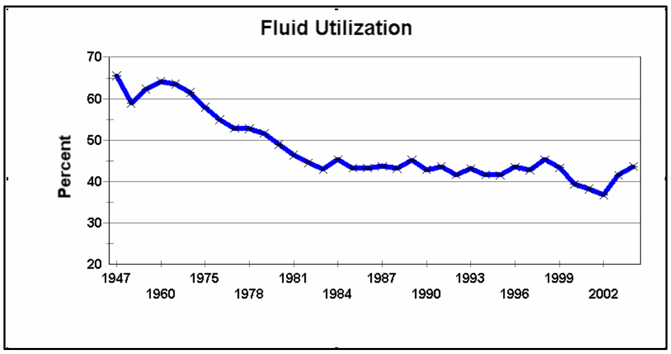
Due to increased levels of concentration and consolidation, there is a lack of competition in the dairy sector in the U.S. A few major companies dominate the market, leaving producers and consumers to suffer as a result. In order for the dairy industry to be viable and sustainable in the future, policy decision-makers need to take immediate steps to foster and restore competition in the marketplace.

DAIRY PROCESSORS

	Annual Sales *
1. Dean Foods	$8,260 Million
2. Kraft Foods (Majority owner is Philip Morris)	$4,300 Million
3. Land O'Lakes	$2,969 Million
4. Schreiber Foods, Inc.	$2,200 Million

*Source: *Dairy Foods: Dairy 100 (2004)*

The United States is the worlds' largest market for dairy products today. However, we are second to India in total milk production. The approximate value of the nearly 170 billion pounds of U.S. milk produced for 2004 was $27 billion dollars at the farm level. The top producing states include California (21%), Wisconsin (13%), New York (7%), Pennsylvania (6%) and Idaho (5%). Cooperatives in the U.S. handle over 80% of the total milk production. However, not all cooperatives actually process their members' milk; some only market the milk collectively for their members.



During the past two decades, annual U.S. per capita sales of fluid milk has fallen steadily from year to year; 233.76 pounds (1980) to less than 185.9 pounds (2003). During this same time U.S. per capita consumption of selected dairy products (fluid milk, cream, butter, frozen dairy and cheese) rose steadily; from 541 pounds (1980) to 594 pounds (2003). Annual U.S. per capita consumption of milk has declined from yearly since 1970. However, the consumption of cheese has virtually doubled over the last 20 years, from roughly 15 to 30 pounds.

It is important to observe the role of U.S. dairy producers in relation to the market and recall the policy changes undertaken by the U.S. government to better understand the dramatic changes in agricultural market competition over the years. Over one hundred years ago, the forces of market concentration and monopolies were dominant. In response, Congress passed the Clayton Antitrust Act of 1914 to spur competition again in the market place. Unfortunately, the law also kept farmers from cooperatively working together to improve returns from the marketplace. In 1922, Congress passed the Capper – Volstead Act to provide limited antitrust immunity for farmers who organized in marketing associations. This significant legislation provided authority for farmers and ranchers to join together in cooperative associations without violating antitrust laws.

U.S. Great Depression/Dustbowl of the 1930's/40's

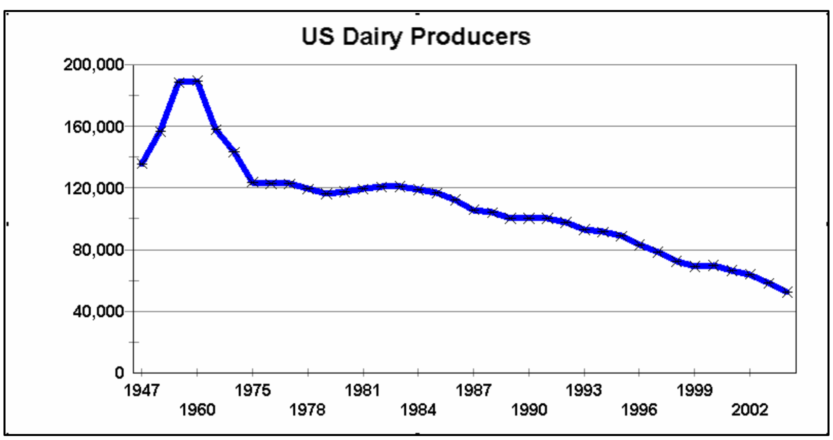
The next significant period for dairy producers occurred during the Great Depression and Dustbowl era of the 1930's and 1940's. During this time, milk prices dropped to record lows as markets became very volatile and producers found themselves taken advantage of by unscrupulous handlers. During this period, the federal milk marketing order system was created to provide equity among the producers, foster orderly marketing conditions and ensure consumers have a steady supply of fresh milk. The state of California established a separate state milk marketing order approximately one year before the federal system was established.

The new milk marketing order systems also provided the government the ability to set prices that were tied to the cost of production, later becoming a price index referred to as parity. Milk prices were very stable and predictable under the parity system. It was during this period the federal government's Commodity Credit Corporation (CCC) would buy extra dairy products during spring flush to balance milk production and establish a stable marketplace.

The next major event occurred when parity was raised in response to political pressure and the price of milk increased. Naturally, the increased price stimulated increased production across the country. At the same time, the California milk marketing order began to adopt end-product-pricing, which has built-in cost of production values for processing plants. The combination of higher parity without any supply management and the innovative California pricing system, caused plants to flood the market. In response, the CCC purchased more cheese, butter, and powder than anyone ever imagined.

Parity Loses Politically

Parity became less of a priority for U.S. lawmakers beginning with the Eisenhower Administration in 1953, and ended with the Reagan administration. Soon after President Reagan took office in January 1981, the parity system that had been in place for over 30 years was replaced with a ratcheted down price support system. During the next decade, producers experienced lower prices that were at times below cost of production because the government backed away from providing a sound safety net for producers. This period also witnessed a dramatic loss of dairy farms, as many were forced out of business by long periods of low prices. In the 1990's alone, over 40,000 dairy farms went out of business or were sold.



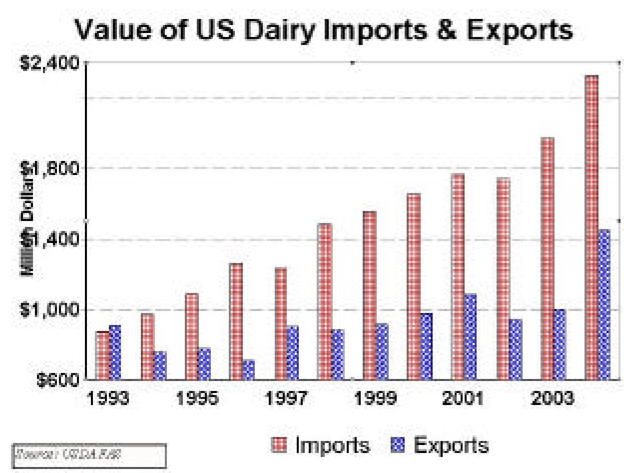
U.S. Becomes Net Importer of Dairy Products

In 1995, the U.S. became a net-importer of dairy products for the first time as a result of the dramatic changes to federal dairy policy. The balance of trade for U.S. dairy products in 2004 totaled $1,452,904,000 in exports and $2,330,709,000 in imports. Today, due to politically motivated domestic dairy policies, the U.S. imports approximately 10 percent of its consumption needs. The imports consist primarily of proteins, cheese and butter. The U.S. exports a significant amount of lower valued lactose, as a result of being the world's largest cheese producer.

Milk Equivalent (Billion Lbs.)	Factor	2000	2001	2002	2003	2004
CHEESE IMPORTS	x10	4.16	4.45	4.75	4.75	4.71
CASEIN IMPORTS	x39	9.29	8.58	7.93	8.94	8.72
BUTTER IMPORTS	x4.2	0.13	0.32	0.14	0.13	0.22
MPC IMPORTS	x22	3.14	1.72	2.01	2.34	2.12
LACTOSE IMPORTS	x5.5	0.05	0.06	0.05	0.08	0.06
TOTAL IMPORTS		16.77	15.13	14.88	16.24	15.84
U.S. MILK PRODUCTION		167.559	165.336	169.758	170.312	170.809
PERCENT OF U.S. PRODUCTION		**10.01%**	**9.15%**	**8.77%**	**9.53%**	**9.27%**
UNITED STATES DEPARTMENT OF AGRICULTURE FAS AGRICULTURAL IMPORT COMMODITY AGGREGATIONS						

Impact of California Pricing System

California's milk pricing system took its toll on the Upper Midwest as processing plants migrated west for lower priced and abundant supplies of milk. The 1996 farm bill provided California the opportunity to join the Federal Milk Marketing Order system, but the state chose not to join. As a result of California's refusal, the entire federal system was forced to adopt California pricing formulas, which include make-allowances with built in cost of production values for plants. In order for California to maintain market share, it reacted by adjusting its formulas to remain below the Federal Order producer prices.



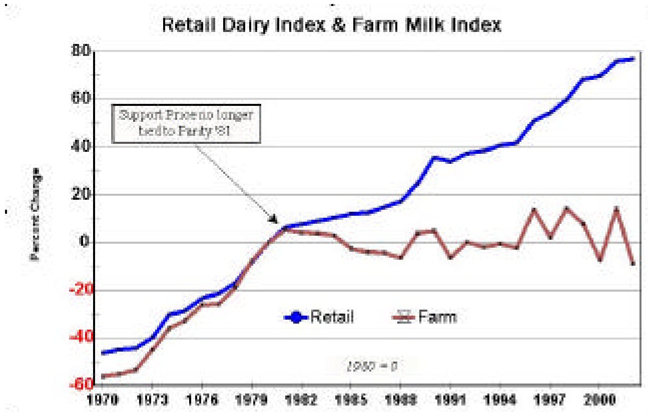
When the U.S. became a net importer of dairy products it caused a new era of tremendous volatility in the dairy market. Previously, the U.S. had not experienced the degree of instability unless the supply came in close relationship to the demand. After the parity system was eliminated in the early 1980's, the U.S. still had ample production for all domestic consumption needs and world market demands. The lower support prices, coupled with ample supply caused producer prices to plummet. The next decade can be best described as the "Wild Roller Coaster of Producer Prices". Prices during some months would leap to $16 - $17 - $18 or even $20 per cwt, yet within a matter of weeks there would be a $6 per cwt drop! This volatility has shifted most of the risk to the producers, making it difficult to budget or plan.

Another factor in the "Wild Roller Coaster" is the amount of milk protein imports penetrating our borders without tariffs. This loophole, which allows caseins, caseinates and milk protein concentrate, duty free access was an oversight by U.S. negotiators at the Uruguay Round. Importers have also avoided tariffs on skim milk powder by blending casein with skim powder and calling it milk protein concentrate.

One of the greatest challenges facing U.S. producers and every other producer in the world is consolidation and concentration of the marketplace, which also drives market globalization. Capitalistic markets function properly when there is a balance of buyers and sellers. There are about 60,000 dairy farms marketing milk today through 200 cooperatives. Half a century ago, there were 180,000 dairy producers marketing through 1,000 cooperatives. While the number of farms and cooperatives continue to decline, the marketing presence of farmer-owned dairy cooperatives has actually expanded during the past generation. Despite this expansion there is less competition vying for producers at the co-op level, with more intervention by non-cooperatives and non-farmer controlled businesses.

Dairy cooperatives continue to grow in size and form strategic alliances with private entities. For example, Land O' Lakes sells a large portion of their cheese to Kraft Foods. The largest cooperative, Dairy Farmers of America, has ongoing agreements to supply milk to Dean Foods and Leprino Foods, and continues to expand its relationship with Fonterra. Cooperatives justify their actions by claiming they are subject to the growing demands of retailers. Wal-Mart, for example, wishes to consider no more than two suppliers for each food product it features in its stores across the U.S. The consolidation and concentration not only harm producers through lower prices, but also negatively impacts consumers with less choice at the grocery store.

In most U.S. metropolitan areas, one company, Dean Foods, has acquired the majority of fluid plants. Two corporations dominate the cheese sector; Kraft Foods at the retail level and Leprino Foods at the food service level. Regardless of which cooperative a U.S. producer markets his milk, at the end of the day the vast majority of milk is purchased by only three major buyers that dictate each market. Dean Foods dominates the fluid market, Kraft owns the retail market and Leprino runs the food service market. Until steps can be taken to end the stranglehold that these three entities have on the three major components of the dairy sector, competition will be stifled and producer prices depressed.



Economic power concentrated in the hands of a few players has essentially eliminated the price system, which capitalism is thought to rest. The farm-gate price is no longer cost plus profit; instead it is a command economy with a few corporate players dictating farm price. The loss of producer economic power is best illustrated by the widening gap between retail prices and farm-gate prices. While consumers continue to experience sticker-shock on dairy products, dairy producers are left with a shrinking percentage of the consumer dollar.

In conclusion, CDC has briefly covered over a century of events highlighting the role of U.S. dairy producers in relation to the market. We have touched on the early struggles of concentration and monopolies, unscrupulous handlers and how the government stepped in, to provide equity and sustainability for all sectors of the industry including ample supply for the consumer. As this effort progressed, a shift in policy after the Reagan years has resulted in history about to repeat itself. Our state can take steps immediately to ensure that dairy producer receive a price that is based on our rising cost of production so that producers have the ability to receive a fair price in the face of such a consolidated market place. In addition, state lawmakers can work to foster the establishment of processing facilities that are not part of the large conglomerates that dominate the dairy processing industry statewide today. As well, state lawmakers can provide resources to dairy producers who are working to improve the environment. Additional resources are needed to enable dairy producers to market their products directly to consumers.

We thank you for the opportunity to express our views about our vision for agriculture in California and we look forward to working with the Board of Food and Agriculture to make our future bright.

The California Dairy Campaign (CDC) is a grassroots organization of dairy farmers who are working to encourage lawmakers and the dairy industry to be more responsive to the needs of the family dairy farm in California. The CDC is a member organization of the California Farmers Union (CFU), which represents more than 1400 family farmers and ranchers of all commodities throughout California. CFU is the state chapter of National Farmers Union, which represents more than 250,000 farmers nationwide.

www.californiadairycampaign.com