

# Dairy Institute of California

August 7, 2008

The Honorable A.G. Kawamura, Secretary  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, CA 95814

Dear Secretary Kawamura:

On behalf of the member companies of Dairy Institute, I am writing to request that the Department of Food and Agriculture deny the petition filed by the Alliance of Western Milk Producers proposing amendments to the Class 1, 2 and 3 pricing formulas to provide a \$1.00/cwt. surcharge for sixth months. These amendments would result in unwarranted and unwise increases in regulated price levels.

The petitioner's use of a lower milk-feed price ratio as justification for a price increase ignores the reality of the state of our industry today. California is barely coping with a near permanent over-supply of milk, and Class 1 milk prices continue at historic highs. In addition to magnifying the over-supply problem, raising prices further will hinder the competitiveness and market share of California's Class 1, 2 and 3 processors. The Nevada State Dairy Commission recently acted to reduce their state's minimum bulk milk price by \$1.00/cwt. These price disparities with surrounding states encourage increased shipments of packaged and bulk milk from outside California into our state's processing facilities and retail outlets. This out-of-state milk does not contribute to California's revenue pool and results in even lower Class 1, 2 and 3 utilization, further lowering California producer prices.

While milk prices have remained high, the price for some feedstuffs has fallen in recent weeks, and oil prices, which have been driving a lot of cost increases, are beginning to moderate as well, having fallen since June. In addition, the recent CWT herd retirement will lead to some needed contraction in the milk supply. Finally, given California's low Class 1, 2 and 3 utilization, raising these prices would have only minimal impact on producer income.

Increasing Class 1, 2 and 3 prices would be an inefficient short-term response to producer concerns. What is clearly vital to the California dairy industry and in the best, long-term interest of producers, is regulatory policy which allows milk supply to come into balance and encourages the wiser investment in higher utilization plant capacity.

Dairy Institute members appreciate your consideration and urge you to deny the Alliance petition.

Sincerely,

Rachel Kaldor  
Executive Director