

DAIRY INSTITUTE
of California

July 8, 2008

Mr. David Ikari, Chief
Dairy Marketing Branch, and
Mr. John Lee, Chief
Milk Pooling Branch
California Department of Food and Agriculture
560 J Street, Suite 150
Sacramento, CA 95814

RE: July 1, 2008 Milk Movement Provisions Hearing -- Post Hearing Brief

Mr. Hearing Officer and Members of the Panel:

I appreciate the opportunity to submit the following post-hearing brief on behalf of Dairy Institute to clarify comments I made in response to a question from the panel and to amplify portions of my testimony presented in Sacramento on July 1, 2008.

During my response to panel member Ikari's question regarding the potential for abuse of transportation credits, I commented on the regulatory treatment of organic milk. I noted that our regulatory system treats all milk the same, making no distinction between milk that is organically produced and that which is produced conventionally. I went on to say that as organic milk grows as a percentage of the total market for fluid milk, it may be necessary to revisit the regulatory treatment of such milk.

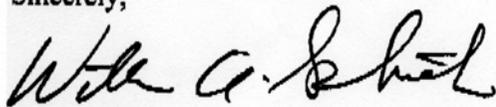
In my view, one of the essential conditions of our regulatory program is that all milk is treated equally. The ostensible justification for all dairymen sharing in the pooled revenues of all classes of milk is the fact that the milk of any producer is equally fit to be disposed of in any of the milk classes. Organic milk, likewise, can be used in any product class and therefore, the regulatory system should not distinguish between organic and conventional. Furthermore, Dairy Institute has testified in the past that when the organic milk market is not large enough to absorb all of the organic milk produced (a situation we do not seem to have today), organic milk producers market milk into "conventional milk" channels and thus benefit from the regulatory system in the same way that other dairymen do.

However, organic milk is a differentiated product that often trades at a premium to the conventional milk price. Despite that fact, organic milk's share of the total fluid milk market appears to be growing. Hitherto, organic milk has been characterized as a niche product, and in my view, that characterization still applies today. However, even if organic milk's share of the market continues to grow and becomes sufficiently large as to become "mainstream", it would not be an argument for establishing a new class of milk or a different regulatory treatment.

Rather, it would call in to question the need for any type of pricing regulation on either organic or conventional milk. That is, if organic milk, which trades at a premium price to conventional milk, were able to grow its market share to the point where its market penetration were comparable to that of conventional milk, it would have done so without specific programs designed to specifically ensure the availability and orderly marketing of this "differentiated" organic milk. That type of marketing success would be a powerful argument that milk pricing regulation is no longer necessary to achieve the desired goals of the state's legislature.

Dairy Institute appreciates the opportunity to submit this post-hearing brief, and we appreciate the hearing panel's consideration of our view.

Sincerely,



William Schiek
Economist