MPC

MILK PRODUCERS COUNCIL

"Serving the Dairy Industry for More Than 50 Years"

September 25, 2008

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

RE: MPC's Alternative Proposal – CDFA Hearing on October 30th and 31st

Dear Secretary Kawamura,

Milk Producers Council (MPC) submits the following alternative proposal to be considered at the CDFA hearing on the Class 1, 2 and 3 minimum price formulas scheduled for October 30 and 31, 2008.

Background

As you know, the minimum price announced for Class 1 milk each month is a gross figure, not a net figure. After that price is announced, there are transportation subsidies that are taken from producer revenues to cover some of the costs associated with serving the Class 1 market.

Over the years, the net Class 1 revenue available for producers has been eroding as CDFA has increased the transportation credits and allowances. In 2008, more than $17.8 million has already been taken out of producer revenues through August to pay for these subsidies. Starting September 1, 2008, the producers' share of the Class 1 revenue was eroded even further when CDFA implemented new payment rates and mileage brackets for the transportation subsidies. According to CDFA figures, these new rates amount to a **26 percent increase in the revenue removed from the producer pool** to pay for these subsidies.

The alternative proposal put forth by MPC would increase the Class 1 minimum price to recover these new transportation costs from the marketplace, where that burden should rightly fall.

Concept

Milk Producers Council proposes that CDFA adjust the Class 1 formula to include a "transportation surcharge" that would increase the Class 1 revenue an adequate amount to recover the revenue being removed to fund the new increase in transportation subsidies.

CDFA's analysis indicates that the recent increase in transportation subsidies would have removed an additional $667,066 from the Class 1 revenues in March 2008 to pay for transportation credits and allowances. This represents a more than 26 percent increase over the prior rates, which already removed $2,493,440 from the producers' share of the Class 1 revenues that month. Our proposal would simply add a "transportation surcharge" to the Class 1 formula in an amount adequate to recover the additional 26 percent that is being taken out since September 1, 2008.

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Proposal

Amend Section 300.0(A)(3) of the Stabilization and Marketing Plan for Northern California to read:

"For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference Price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus fourteen and seven-tenths cents ($0.147), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24*, plus a transportation surcharge equal to twenty-six percent (0.26) times the previously available total monthly cost to the pool of transportation allowances and credits, divided by the number of hundredweights of raw milk processed by class 1 plants in the such month,* and divided by 87.8, and then $0.0031 per pound subtracted from the result."

Amend Section 300.0(A)(3) of the Stabilization an Marketing Plan for Southern California to read:

"For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference Price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus fourteen and seven-tenths cents ($0.147), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24*, plus a transportation surcharge equal to twenty-six percent (0.26) times the previously available total monthly cost to the pool of transportation allowances and credits, divided by the number of hundredweights of raw milk processed by class 1 plants in such month,* and divided by 87.8."

Example

In March, 2008, there were 496,948,000 pounds of milk sold by the pool to Class 1 plants. The transportation allowances and credits taken out of the producer pool in March were $2,493,440 – or about $0.50 per cwt. According to CDFA's analysis, the new subsidy rates being used would increase the amount taken out of the producer pool by $667,066 or 26 percent – to about $0.64 per cwt. The goal of MPC's alternative proposal would be to also increase the Class 1 minimum price – through a "transportation surcharge" – by $0.14 per cwt. to allow the industry to recover those increased transportation costs from the marketplace.

Since the minimum price for Class 1 milk is announced ahead of time, we propose using the transportation credits and allowances from the previously available month to allow for the calculation to be part of the announced Class 1 price.

Conclusion

Dairy producers are already being pinched – not only paying the increased costs of transporting everything to the farm (such as feed), but also paying the increased costs of transporting everything off as well (such as milk and fertilizer). Producers can no longer absorb the full cost of paying for the transportations subsidies as well. It is time for the consumers of our products to help fund these transportation subsidies that ultimately are aimed at making milk readily available to those consumers throughout the state.

Please feel free to contact me if you have any questions.

Sincerely,

Robert VandenHeuvel
General Manager

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