

“Serving the Dairy Industry for More Than 50 Years”

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May 23, 2008

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

RE: Alternative Proposal – CDFA Hearing on July 1st

Dear Secretary Kawamura,

Milk Producers Council (MPC) submits the following alternative proposal to be considered at the CDFA hearing on July 1, 2008.

Background

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 and a fortification allowance that is taken from the producer pool to cover some of the costs associated with serving that Class 1 market.

Over the years, the net Class 1 revenue for producers has been eroding as CDFA has increased the transportation and fortification credits and allowances. The proposal by CDI to increase these transportation subsidies would only further erode the producers' share of the Class 1 revenue.

MPC's proposal would instead take the increased fuel costs and pass them on to the marketplace where they can be absorbed, as in any other industry.

Concept

Milk Producers Council proposes that if the transportation credits and allowances must be adjusted to reflect the increased fuel costs, CDFA should also adjust the Class 1 formula to include an equivalent "transportation surcharge" which would achieve the goal of capturing those increased fuel costs from the marketplace.

Our preliminary analysis of the proposal by CDI indicates that it is roughly a 20 percent increase in the transportation subsidies paid out of the producer pool. Therefore, our proposal would simply add a "transportation surcharge" to the Class 1 formula equal to 20 percent of the previous month's transportation subsidies.

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), plus a transportation surcharge equal to twenty percent (0.2) times the previous month’s total 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 previous month, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8, and then \$0.0031 per pound subtracted from the result.”

Amend Section 300.0(A)(3) of the Stabilization and 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), plus a transportation surcharge equal to twenty percent (0.2) times the previous month’s total 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 previous month, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 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 our rough analysis, the proposal by CDI would raise this by approximately 20 percent – to about \$0.60 per cwt. The goal of MPC’s alternative proposal would be to also increase the Class 1 minimum price – through a “transportation surcharge” – by \$0.10 per cwt. to allow the industry to recover those increased fuel costs from the marketplace.

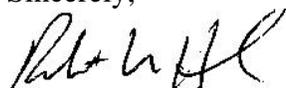
Since the minimum price for Class 1 milk is announced ahead of time, we propose to use the transportation credits and allowances from the previous month to allow for the calculation to be part of the announced Class 1 price.

Conclusion

This proposal would appropriately recognize that the entire chain of the California dairy industry, from the farm to the table – is incurring exorbitantly high fuel costs and that those increased costs should be born by the buyer of the milk, not the producer. Dairy producers already pay for the rising costs of transporting all the products they buy, such as feed – as is the case in any other business. But unlike other industries, producers are also asked to pay the increased transportation costs for everything leaving the dairy as well. This is a gross distortion of real market forces, and this proposal would help fix that distortion.

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

Sincerely,



Rob VandenHeuvel
General Manager