



October 28, 2009

The Honorable A.G. Kawamura
Secretary
California Department of Food and Agriculture
1220 N Street, Suite 409
Sacramento, CA 95814

Dear Secretary Kawamura:

The California Dairy Campaign (CDC) submits the following alternative proposal for consideration at the California Department of Food and Agriculture (CDFA) emergency hearing on all classes of milk to be held on November 9, 2009.

Summary of CDC's proposed changes to the Class 1, Class 4a, and 4b price formulas:

- Incorporate the producers' Cost of Production (COP) into the Class 1 price formula.
- Utilize the higher of the Commodity Reference Price (CRP) or the Cost of Production (COP) to establish a price floor that will prevent the Class 1 price from dropping below the COP.
- Utilize the full Cost of Production (COP) including allowances from the Statewide Cost Comparison Summary.
- Adjust the 4a and 4b price formula to establish a variable make allowance. The variable make allowance would increase or decrease the fixed base make allowance depending on the relationship between the COP and the end product values from the commodity reference price (CRP).
- Include the higher of the commodity prices or the USDA support price in pricing formulas to prevent minimum prices from dropping below the intended federal support level.

As you know dairy producers continue to endure an unprecedented and prolonged crisis due to record low producer prices that do not come close to covering the average cost of production in the state. It is imperative that CDFA act immediately to improve producer prices to sustain dairy operations throughout California.

The CDC proposal would increase the Class I price to factor in the statewide average cost of production; floor the commodity price at the federal support purchase price; and establish a variable make allowance on the 4a and 4b Class prices. Over the last five years, the CDC proposal would have increased the Class I price by approximately \$1.00 per hundredweight. Over the same period, the variable make allowance would have had a minimal impact overall on the average 4a and 4b prices, but it would have fostered a more market oriented system. We urge CDFA to implement the provisions in the CDC alternative proposal and adopt other proposals put forward that will improve producer prices so that producers are able to receive some relief in the near future.

Acceptance of our alternative proposal will provide a much needed price safety net for producers during this and future periods of chronic low prices. We look forward to continuing to work with you and your staff at CDFA to take additional steps to improve the outlook for dairy producers in the future.

Sincerely,



Joe Augusto
President
California Dairy Campaign

The following changes are to the N.C. Plan #53, the same changes are to be incorporated into the S.C. Plan #68.

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

(A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of thirteen and fifteen hundredths cents (\$0.1315), and the result multiplied by a yield factor of 1.2.

(2) For all milk solids-not-fat, not less than the price per pound computed by the formula using **the higher of** the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section **or the Cost of Production price per hundredweight determined pursuant to Subparagraph (A)(10) of this Section**, minus twenty and three-tenths cents (\$0.203), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.

(3) For all fluid carrier, not less than the price per pound computed by the formula using **the higher of** the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section **or the Cost of Production price per hundredweight determined pursuant to Subparagraph (A)(10) of this Section**, minus twenty and three-tenths cents (\$0.203), 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.

(4) The Commodity Reference Price per hundredweight shall be the higher of either:

(a) The sum of the following three formulas:

(i) The price per hundredweight computed by the formula using the Cheddar cheese price determined pursuant to Subparagraph (A)(6) of this Section, multiplied by a Cheddar cheese yield factor of nine and eight-tenths (9.8).

(ii) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less ten cents (\$0.10), all multiplied by a whey butter yield factor of twenty-seven-hundredths (0.27).

(iii) The price per hundredweight computed by the formula using the dry whey price determined pursuant to Subparagraph (A)(7) of this

Section multiplied by a dry whey yield of 5.8, all less a dry whey adjuster of eighty-five cents (\$0.85).

(b) The sum of the following two formulas:

(i) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, multiplied by a butter yield factor of 1.2, and the result multiplied by 3.5.

(ii) The price per hundredweight computed by the formula using the nonfat dry milk price determined pursuant to Subparagraph (A)(8) of this Section, multiplied by a nonfat dry milk yield factor of 0.99, and the result multiplied by 8.7.

(5) The butter price used in calculations pursuant to Paragraph (A) shall be the simple average of the daily closing Grade AA butter prices at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the second previous month and concluding the 10th day of the previous month. In the event that Chicago Mercantile Exchange Grade AA butter prices are not available to calculate the butter price fifteen days prior to the effective date of the Class 1 pricing period concerned, then used in its place shall be the butter price used in the previous month's calculation.

(6) The Cheddar cheese price used in calculations pursuant to Paragraph (A) shall be the simple average of the daily closing 40 pound block Cheddar cheese prices at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the second previous month and concluding the 10th day of the previous month. In the event that Chicago Mercantile Exchange 40 pound block Cheddar prices are not available to calculate the Cheddar cheese price fifteen days prior to the effective date of the Class 1 pricing period concerned, then used in its place shall be the Cheddar cheese price used in the previous month's calculation.

(7) The dry whey prices used in calculations pursuant to Paragraph (A) shall be the two most recent weekly, simple average of the Dry Whey – West Mostly prices as published in Dairy Market News available on the 10th day of the previous month.

(8) The nonfat dry milk price used in calculations pursuant to Paragraph (A) shall be the weighted average of the two most recent weekly price reports for nonfat dry milk f.o.b. California manufacturing plants available on the 10th day of the previous month. The weekly reports are used to calculate the weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the seven day period ending on Friday as reported by the California Department of Food and Agriculture.

(9) For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 1 prices shall be increased by the following amounts:

- (a) For milk fat, five and seven-tenths mils (\$0.0057) per pound.
- (b) For milk solids-not-fat, two and three-tenths mils (\$0.0023) per pound.
- (c) For fluid carrier, one-tenth mil (\$0.0001) per pound.

(10) The Cost of Production (COP) price used in Paragraphs (A) (D) (E) shall be the most current Statewide Cost Comparison Summary, Total Costs and Allowances dollars per hundredweight, produced by the California Department of Agriculture.

(B) The minimum bimonthly prices for components used for Class 2 shall be determined at the beginning of each even month, using the following formulas and procedures:

- (1) For all milk fat, not less than the Average Class 4a fat price.
- (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus four and ninety hundredths cents (\$0.0490) per pound.
- (3) For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 2 prices shall be increased by the following amounts:

- (a) For milk fat, seven and one-tenth mils (\$0.0071) per pound.
- (b) For milk solids-not-fat, two and nine-tenths mils (\$0.0029) per pound.

(4) The time periods for the Average Class 4a fat price used in Subparagraph (B)(1) and the Average Class 4a solids-not-fat price used in Subparagraph (B)(2) of this Section shall be those in Subparagraph (B)(5) of this Section.

- (5) For February-March Class 2 and 3 pricing period, the average of preceding December January Class 4a component prices per pound.
For April-May Class 2 and 3 pricing period, the average of preceding February-March Class 4a component prices per pound.
For June-July Class 2 and 3 pricing period, average of preceding April-May Class 4a component prices per pound.
For August-September Class 2 and 3 pricing period, average of preceding June-July Class 4a component prices per pound.
For October-November Class 2 and 3 pricing period, average of preceding August-September Class 4a component prices per pound.
For December-January Class 2 and 3 pricing period, average of preceding October-November Class 4a component prices per pound.

(C) The minimum bimonthly prices for components used for Class 3 shall be determined at the beginning of each even month, using the following formulas and procedures:

- (1) For all milk fat, not less than the Average Class 4a fat price.

- (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus four and thirty-three hundredths cents (\$0.0433) per pound.
- (3) For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 3 prices shall be increased by the following amounts:
- (a) For milk fat, seven and one-tenth mils (\$0.0071) per pound.
 - (b) For milk solids-not-fat, two and nine-tenths mils (\$0.0029) per pound.
- (4) The time periods for the Average Class 4a fat price used in Subparagraph (C)(1) and the Average Class 4a solids-not-fat price used in Subparagraph (C)(2) of this Section shall be those in Subparagraph (B)(5) of this Section.
- (D) The minimum prices to be paid for components used for Class 4a shall be computed as follows:
- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, whichever is higher, less an f.o.b. California price adjuster of three and nine hundredths cents (\$0.0309), less a manufacturing cost allowance calculated pursuant to Subparagraph (D)(7) of fifteen and six tenths cents (\$0.156), and the result multiplied by a yield factor of one and two-tenths (1.2).
 - (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the nonfat dry milk price or the Commodity Credit Corporation Dairy Support Program purchase price for nonfat dry milk powder in effect, whichever is higher, less a manufacturing cost allowance calculated pursuant to Subparagraph (D)(8), of sixteen and ninety eight hundredths cents (\$0.1698), multiplied by a yield factor of one (1.0).
 - (3) The butter prices used in calculations pursuant to this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, whichever is higher.
 - (4) The nonfat dry milk prices used in calculations pursuant to this Paragraph shall be the weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month.
 - (5) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the current Class 4a fat price, pursuant to Subparagraph (D)(1), then used in its place shall be the Chicago Mercantile Exchange Grade AA butter price used in the prior month's calculation of the Class 4a fat price. All other

Paragraphs that use the Class 4a fat price shall operate as if the price had been established pursuant to Subparagraph (D)(1).

(6) In the event that the California weighted average nonfat dry milk price is not available to calculate the current Class 4a solids-not-fat component price, pursuant to Subparagraph (D)(2), then used in its place shall be the California weighted average nonfat dry milk price used in the prior month's calculation of the Class 4a solids-not-fat price. All other Paragraphs that use the Class 4a solids-not-fat price shall operate as if the solids-not-fat price had been established pursuant to Subparagraph (D)(2).

(7) The manufacturing cost allowance used in Subparagraph (D)(1) shall be fifteen and six tenths cents (\$0.156), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(b), divided by the Cost of Production (COP) price used in Paragraph (A)(10).

(8) The manufacturing cost allowance used in Subparagraph (D)(2) shall be sixteen and ninety-eight hundredths (\$0.1698), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(b), divided by the Cost of Production (COP) price used in Paragraph (A)(10).

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

(1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:

(a) The price per hundredweight computed by the formula using the Cheddar cheese price or the Commodity Credit Corporation Dairy Support Program purchase price for block cheddar cheese in effect, which ever is higher, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance calculated pursuant to Subparagraph (E)(8) of ~~nineteen and eighty-eight hundredths cents (\$0.1988)~~, all multiplied by a yield factor of ten and two-tenths (10.2).

(b) The price per hundredweight computed by the formula using the butter price or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, which ever is higher, less a manufacturing cost allowance of fifteen and six tenths cents (\$0.156), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).

(c) The constant whey factor of twenty-five cents per hundredweight (\$0.25).

(2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.

(3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).

(4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(6) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.

(7) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.

(8) The manufacturing cost allowance used in Subparagraph (E)(1)(a) shall be nineteen and eighty-eight hundredth cents (\$0.1988), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(a), divided by the Cost of Production price used in Paragraph (A)(10).

(F) The minimum prices to be paid pursuant to Paragraph (A) of this section shall be computed by the Dairy Marketing Branch and furnished to handlers not less than ten days prior to the effective date of each price change.

(G) The minimum prices to be paid pursuant to Paragraphs (B), (C), (D), and (E) of this section will be computed by the Dairy Marketing Branch and furnished to handlers each month.