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Post-hearing brief
November 9, 2009 CDFA consolidated emergency public hearing – Class 1, 2, 3, 4a & 4b Stabilization & Marketing Plans for the Northern California & Southern CA Marketing Areas

Dear Hearing Panel Members – listed below are the questions asked by the hearing panel at the November 9, 2009 hearing. Western United Dairymen's response to each of them follows.

1. Panel question: Please provide pro's and con's on CDFA's past decisions to temporarily increase class prices.
CDFA provided information on the following emergency price adjustments <u>implemented</u> in the 1988-2009 period. Because we have no specific information on each of the temporary price increases listed below, we will provide only general pro's and con's with regard to temporary price increases. That is, we can not provide comments specific to each hearing outcome and impact.

December 8, 1988 - Consolidated Statewide Hearing, Effective: January 1, 1989

- Implement a temporary floor on the Class 1 price for February through July 1989 of $.68 per cwt. above the December 1988/January 1989 price
- Temporary floors were placed on the Class 4a and 4b prices for
- January through June 1989 of $.68 per cwt. above the current minimum prices that occurred when commercial butter, cheese, and powder prices were all at or below CCC support purchase prices.
- Classes 2 and 3 had indirect floors through the floors on Class 4a

November 20 and December 10, 1991 - Pooling and Consolidated Hearing, Effective: February 3, 1992
• The Department adopted a weighted average 4a/4b price of $10.00 per cwt or less to implement a temporary price
• As a result, the Class 1, 2, and 3 component prices were increased $0.058 per lb. (approximately $0.70 per cwt.) for up to six months, and the resulting funds will be used to uniformly increase the quota, base and overbase prices
• The temporary increase was in effect all six months.

April 21, 1995 – Consolidated Statewide Hearing, Effective: June 1, 1995 through January 31, 1996
• A temporary uniform increase of $0.13 per hundredweight ($0.0107 per pound of both fat and SNF) across all classes of milk was implemented for the period June 1, 1995 through January 31, 1996

General Pro's

- Temporary infusion of money for dairy producers who are in dire need of financial assistance.
- Temporary changes should reduce market disruptions (when compared to artificial permanent changes).
- Could help foster additional milk supplies to ease reported shortages. Additional dollars paid by manufacturers could be offset by avoiding a milk deficit situation where plants are required to pay additional premiums to attract milk.

General Con's

- Manufacturers (including independent manufacturers, fluid bottlers and cooperatives) are forced to pay an extra artificial amount on the respective class prices. They may not be able to recoup these dollars from the marketplace. If they attempt to do so, competitive disadvantages may develop.
- Competitive disadvantages could result in lost sales for California dairy products – a result that hurts all parties, from producers to manufacturers.

- Manufacturers may be required to pass along the additional costs to producers through assessments or reduced premiums. Each manufacturer will handle this differently. Thus, some producers may benefit more than others, depending on where they ship their milk.

2. ***Panel question: Why did WUD take a neutral position on the California Dairy Campaign, California Dairy Women and Milk Producer's Council alternative proposals?***

Although the scope of the hearing was expanded to include all class prices, the emergency nature of the hearing meant the timeframes involved were extremely condensed. The issues included in these alternative proposals needed further analysis and discussion. WUD usually analyzes these types of proposals through the Dairy Programs Committee which makes recommendations to the WUD board of directors to set policy. The timeframes involved did not allow for this process. WUD may consider the issues contained in the MPC alternative proposal at a later date.

3. Panel question: Please provide more information on European Union dairy subsidies.

The European Commission's Dairy Market Situation report published July 22, 2009 provides a helpful overview of measures made available to assist their dairy industry. At the conclusion of the overview, current data from the DairyCo website on specific export refund levels, private storage and intervention storage is included.

Per European Commission report published on July 22, 2009:

Measures available

The Commission opened **private storage aid for butter** at the beginning of January. The period for PSA will be extended to the end of February 2010.

Intervention buying started on 1st March for butter and skimmed milk powder and the Commission has now proposed to extend it until 28 February 2010, when the new intervention season begins. The Commission has also proposed that it be empowered to do the same in 2010 if the market situation requires.

Export refunds for dairy products were reactivated in January. Refunds have been awarded at a prudent level to allow our exporters to compete without undercutting world prices. The Commission will continue to provide refunds for as long as needed.

The **EU school milk scheme** has recently been improved and discussions are now ongoing to make it more attractive still.

The Commission will exceptionally allow Member States to **pay up to 70 percent of direct payments to farmers from 16th October** instead of 1st December.

Member States may also grant ***de minimis*** **state aid or loans at market conditions** to help milk producers with liquidity problems.

A modification to the **Temporary Crisis Framework** for state aid could be envisaged.

This could allow up to €15,000 to be paid per farmer up to the end of 2010, minus any *de minimis* aid received by the farmer in question.

Earlier this month, the Commission proposed an additional round of **dairy product promotion programs**

The **Health Check** introduced the possibility to redistribute a certain amount of direct payments between farmers and sectors within a Member State. They can, for example, establish specific aids for vulnerable types of farming in the dairy sector.

Rural Development policy has a number of measures to help restructure the dairy sector. The Health Check identified 'dairy restructuring' as one of the new challenges on which money added to the Rural Development fund may be spent.

Options include early retirement, investment support, payments for milk farmers in Less Favored Areas, support for environmentally-friendly forms of milk production, and aid for practices which improve animal welfare.

The Commission is implementing the Road Map proposed in its Communication on **Food Prices in Europe**, and is looking at setting up a new system for price monitoring.

It is also examining potential **anti-competitive practices** in the food supply chain, especially the dairy sector. If the Commission finds that competition is not functioning, it will not hesitate to use all its powers under the Treaty. National competition authorities have an equally important role to play.

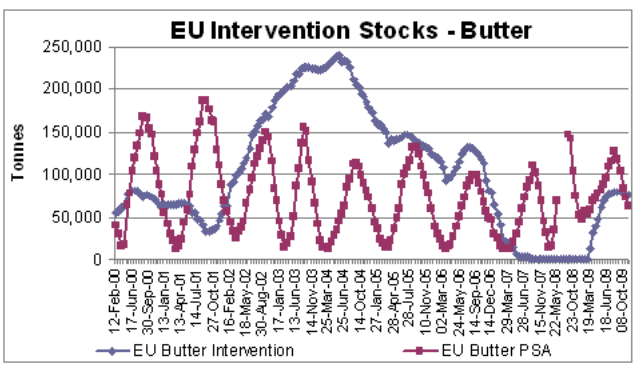
EU dairy subsidy information available on the DairyCo website:

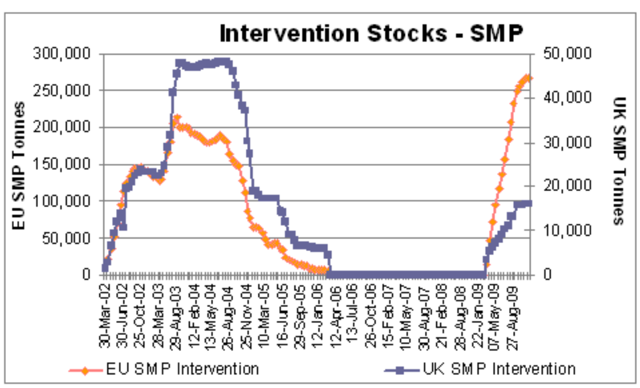
http://www.dairycodatum.org.uk/datum/dairy-processing--trade/eu-market-support/intervention-stocks.aspx

EU export subsidies have recently been reduced from levels in place earlier in the year.

Management Committee dates	**Butter Intervention Stocks (tons)**			**SMP Intervention Stocks (tons)**	
	EU	UK	**PSA (EU)**	**EU**	**UK**
08-Oct -09	77,161	4,517	83,273	262,511	15,810
22-Oct -09	76,646	4,517	72,721	267,740	16,149
05-Nov -09	76,449	4,517	62,451	267,458	16,149
23-Oct-08	0	0	103,372	0	0

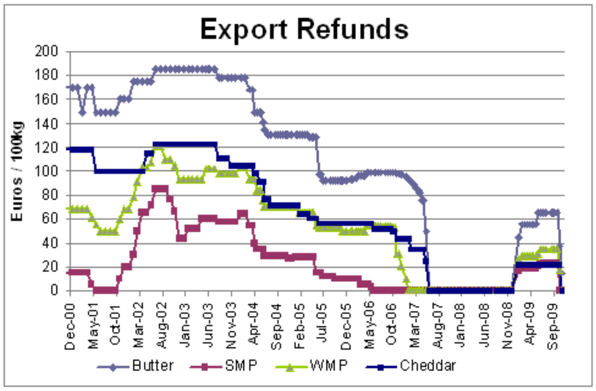
Figures reflect actual stocks rather than offers to Intervention or to PSA.





'Common' EU Subsidies (Euro/100kg)								
Management Committee dates	Butter			SMP		Skim	WMP	Cheddar
	Food Manufacture		Export refund (82%)	Animal Feed	Export Refund	For Casein	Export Refund	Export Refund
	Traced	Untraced						
08-OCT-09			65.00	0.00	22.80	0.00	35.00	22.00
22-OCT-09			37.70	0.00	0.00	0.00	17.50	22.00
05-NOV-09			14.50	0.00	0.00	0.00	0.00	0.00
23-OCT-08	BS	BS	0.00	0.00	0.00	0.00	0.00	0.00

Notes: BS Bids suspended
Source: DIN, Mancom



In attempts to better quantify the export refunds provided by the EU, we provide the following rough conversions to dollars per pound. All conversions are based on the November 12, 2009 EUR to USD exchange rate of 1.4999. These are compared to various DEIP bonuses awarded on the dates listed below.

EU Export Subsidies (estimated $/pound)

	10/8/2009	10/22/2009	11/5/2009
Butter	$0.44	$0.26	$0.10
SMP	$0.16	$0.00	$0.00
WMP	$0.24	$0.12	$0.00
Cheese	$0.15	$0.15	$0.00

US DEIP Subsidies

	10/8/2009	10/9/2009	9/12/2009	
Butter	$0.14			
SMP			$0.07	NFDM
WMP				
Cheese		$0.10		

We once again thank the Secretary for the call of the emergency hearing and for the quick turnaround on the part of staff.

Please contact us if you have any questions.

Very truly yours,

Michael L. H. Marsh, CPA
Chief Executive Officer

cc: Board of Directors, Western United Dairymen