EXHIBIT 10

Testimony of the California Dairy Campaign (CDC)
Before the California Department of Food and Agriculture (CDFA)
May 3, 2005
Sacramento, California
Presented by CDC President Andy Zylstra

Mr. Hearing Officer and members of the panel, my name is Andy Zylstra. I currently serve as president of the California Dairy Campaign (CDC), and I am a dairy producer from Turlock, California. I am testifying today on behalf of the California Dairy Campaign (CDC), which represents more than 350 dairy producers throughout the state of California. CDC speaks today also on behalf of the farmer and rancher members of the California Farmers Union (CFU). The testimony I am presenting today is based on positions adopted by the CDC Board of Directors at our March 27, 2005 board meeting.

The alternative proposal put forth by CDC makes changes to the current class I pricing formula so that California Class 1 prices are more in line with those received in surrounding federal order states. According to 62062.1 of the California Food and Agricultural Code, "If the statewide weighted average class 1 prices paid to producers are not in a reasonable relationship with the class 1 prices paid to producers in contiguous states, the secretary shall immediately hold a hearing to consider adjustments to the class 1 prices." To establish a reasonable relationship, our proposal calls for changes to the current class 1 pricing formula so that California prices more closely track federal order prices.

The section also states that, "Any designation of a class 1 price by any method or formula that is used to develop class 1 prices paid to producers in the various marketing areas, shall provide, on a calendar year basis, a statewide weighted average minimum price level." In 2004, the class 1 price in California was well below the federal order price received in nearby states. Including a one-year basis, rather than a five-year basis in the formula, will be an important step to ensure that prices paid to California producers are in a reasonable relationship to those in surrounding states.

CDC firmly believes that the California dairy pricing system should be altered so that it can incorporate the best aspects of both the California and federal milk marketing order systems. Joining a Federal Order while combining certain elements of the California and federal systems, will ensure that prices paid to producers in California will remain close to contiguous states and be able to pool class 1 milk regardless of its origin.

The fact that so much milk is pouring into the state and circumventing the state pooling system is creating an even stronger incentive for California producers to join the federal order. Our producer members are concerned about the increasing amount of out-of-state milk entering into the Los Angeles market from Nevada and other areas.

The Alternative Proposal Submitted by CDC

The proposal put forward by CDC accomplishes an important objective which is to close the growing gap between the California Class 1 price and the federal order Class I price in the surrounding states.

The spread that has developed between the federal price and our state price over the past year is not just an apparition, but a trend that is going to continue. To correct the inequity in our current system, we chose to make a more substantial change to California's Class 1 pricing formula than the simple adjustments to the differential proposed by some other organizations. Due to the difference in the monthly timing of the Class 1 price discovery, we concluded that a fundamental change in the pricing formula is needed. The federal price captures market prices from the first two weeks of the month, which tend to be at an up-turn in the market. California uses the 26th as its start date, which encompasses the last week of the month when Class I prices tend to be lower.

Another significant difference between the federal and state pricing formulas is the fact that the Federal Orders use a National Agricultural Statistics Service (NASS) plant survey, while California uses the Chicago Mercantile Exchange (CME). Since January 2004, each method produces a significantly different result. If California simply changed the pricing period from the 26th to the 1st producers in this state would continue to receive an inequitable price.

The California location differentials for class 1 milk are combined into two regions of the state. In the Federal Orders every county is designated a separate differential, California included. In our proposal we adopted an approximated average of the location differentials listed in Part 1124 Pacific Northwest Marketing Area Section 1000.52 for California. We averaged the differentials for counties that have Class 1 plants and combining them into either of California's two marketing areas. We also attempted to maintain the current spread between the two areas. In addition we tried to find a level that on average wouldn't diminish the Class 1 price.

The Federal Order Advanced Skim Price used is similar to the California Commodity Reference Price (CRP). Like the Federal Orders, California uses the CRP to price the Class 1 SNF and Fluid components. We replaced the CRP with the Federal Advanced Skim Price, and added the appropriate location differential. Following that we used the existing 76 – 24 percent split in value for SNF and Fluid, and then converted these to per pound values by dividing the SNF portion by 9 and the Fluid portion by 91. The use of the nine and ninety-one instead of the current 8.7 and 87.7 was necessary so the conversion back to a hundredweight price would reflect the correct differential.

In using the Advanced Skim Value it made sense to also adopt the advanced butterfat price. The Federal Orders take the per pound value of the location differential and add it to the Advance Butter Fat price. We also included that aspect in our proposal.

In years past, part of the justification for California to retain its own distinct state order was due to the fact that our state was considered to be geographically isolated from other parts of the nation. However, based on the increasing sales of California dairy products over the last several decades, it is apparent that we are very much a part of the national dairy market. Each year we export more and more surplus nonfat dry milk and surplus cheese to the federal dairy price support program.

CDC's proposal is the only proposal that addresses the issue of section 62062.1 of the California Food and Agriculture Code regarding a reasonable relationship of class 1 prices paid to producers in contiguous states an annual basis. We believe acceptance of our petition will be a good first step towards ensuring that dairy producers receive a fair price in the future. We acknowledge that far more must be done to make the pricing system more equitable for producers. We look forward to working with CDFA to improve the outlook for dairy producers in this state.

The California Dairy Campaign would like to thank the department for the opportunity to present our alternative proposal today. We would also like to request the opportunity to submit a post-hearing brief.