

Whey Review Committee
December 28, 2007

Whey Review Committee Meeting Notes

December 28, 2007
Sacramento, California

MEMBERS PRESENT

Andrew Branagh
Scott Hofferber
Scott Magneson
Mike McCully
Tony Mendes
Joe Paris
Bill Schiek
Ray Souza
Sue Taylor
Sietse (Sean) Tollenaar
William C. Van Dam
Geoffrey Vanden Heuvel
Tom Wegner
Dr. Jim Morgan – Facilitator

MEMBERS ABSENT

John Jeter

DEPARTMENTAL STAFF PRESENT

A.G. Kawamura
George Gomes
Kelly Krug
John Lee
Dave Ikari
Jeff Cesca
John Hewitt
Linda Berg-Gandara

PUBLIC GUESTS IN ATTENDANCE

Bob Bignami
Art Marquez
Rob Vanden Heuvel
Jim Gruebele
George Samos
Edwin Genasci
John Ellsworth
Tiffany La Mendola
Eric Erba
Bill Wise
Ana Dyrland
John Kaczor
Rachel Kaldor
Ralph Sartori

Opening Remarks/Introductions

Undersecretary George Gomes began the meeting at 10:05 a.m. by welcoming the Whey Review Committee members present. He then introduced Secretary A.G. Kawamura.

Secretary Kawamura welcomed the group and thanked them for working together on the Committee. He talked about the many challenges faced by the industry (i.e., food safety). He stressed that we must ensure that a healthy product is available for consumers. He also noted that a balance of profitability for both producers and processors is important for a strong dairy industry.

Undersecretary Gomes then asked all persons present at the meeting to introduce themselves.

Undersecretary Gomes continued and mentioned that producers are seeing higher prices, but also higher production costs, including fuel and labor. Feed costs are also impacted given the demands for ethanol production. This translates to higher consumer prices. Pressures such as out-of-state milk and reports of milk dumping are impacting the industry. Milk is the most important commodity; that is why it is so heavily regulated.

Undersecretary Gomes said that he values everyone's input and looks forward to the recommendations of the Committee. It is important that producers and processors make a profit from the milk produced or processed.

Introduction of Facilitator

Undersecretary Gomes then introduced Dr. Jim Morgan - facilitator of the Committee. Mr. Morgan reviewed the meeting agenda (part of the packet provided to the Committee).

Committee Goal, Term of Committee, and Ground Rules

Mr. Morgan informed the Committee the first thing that needed to be done was to identify the goal of the Committee. Mr. Morgan presented a draft goal:

“The Whey Review Committee's goal is to provide a recommendation to CDFA Secretary A.G. Kawamura on or about _____, 2008, on ???”

Committee members were asked for their input. Discussion ensued and there were different perspectives on what the goal of the Committee should be.

Undersecretary Gomes reminded everyone that the Committee must look at all opportunities and options so that producers and processors can compete in a global marketplace. Secretary Kawamura encouraged the Committee to move from 'crisis (opportunistic) planning' to 'strategic (long term) planning'.

During the discussion, the date of March 31, 2008, was decided upon to conclude Committee activities. At the conclusion of the discussion, the Committee agreed to the following goal:

The Whey Review Committee's Goal is to provide a recommendation to CDFA Secretary A.G. Kawamura on or about March 31, 2008:

*On whey pricing within the context of the current 4b pricing formula and it's structure.
Demonstrate common understanding of producers and processors costs and issues.
May provide recommendations on other pricing areas to be addressed.*

Mr. Morgan then asked each Committee member for their input on what ground rules Committee members would abide by. Each member provided at least one ground rule. A list was developed and agreed to by the Committee.

Future Meeting Dates/Times

Three meeting dates and times were identified by the Committee members. Locations for two of the meetings were also confirmed (later on in the meeting).

Monday, February 4, 2008 @ Farm Bureau
Tuesday, March 11, 2008 (location to be identified)
Thursday, March 27, 2008 @ Farm Bureau

Each meeting will start at 9:30 am and end at 2:30 pm.

Review of Data as provided by CDFA

Kelly Krug, CDFA Director of Marketing Services, reviewed each of the data sets provided to the Committee members in their packets. Some questions about the data were asked by members.

Some Committee members identified other data sets that might be helpful and asked CDFA staff to gather this information and distribute it to the Committee. Specific requests included:

- 1) Federal Make Allowances (historical)
- 2) Manufacturing Cost data from 1982 to Current for butter, nonfat dry milk, cheddar cheese and dry whey
- 3) Whey Protein Concentrate (WPC) and Whey Protein Isolate (WPI) manufacturing cost data (if available)
- 4) Whey Protein content levels in whey products produced in CA
- 5) How did CDFA estimate the statistic used in the recent Hearing Panel Report that states approximately 30% of whey solids are not recovered?

Whey Review Committee
December 28, 2007

Dairy Marketing staff will gather this data and distribute as soon as possible.

Lunch

The Committee was released for lunch at 12:15 pm and asked to return at 12:50.

Review of Goal and Ground Rules

Mr. Morgan reviewed the Committee Goal and Ground Rules as developed during the morning session.

Review and Discussion of McKinsey Research

Mr. Morgan presented information as reported in the McKinsey Report (part 2). Specifically:

- 1) CA's share of the nation's cheese production jumped from 5% in 1980 to 21% in 2004 due in part to lower cheese milk prices compared to federal systems;
- 2) Milk production growth could reach 4% while end product demand growth may only be around 2%

He asked for input on this information as it relates to the whey factor/pricing formula. Committee discussion ensued and was captured by Mr. Morgan.

Processor and Producer Assumptions and Beliefs as Related to Whey

Mr. Morgan asked the Committee to think about any assumptions or beliefs that both producers and processors might have in regards to the whey issue. Each member provided at least one comment from the perspective of a producer and a processor. Mr. Morgan captured this information.

What else do we need to know?

During the conversation above, Committee members were asked "what else do we need to know" in order for the Committee to perform its task. Mr. Morgan captured this information.

To Do

Mr. Morgan will distribute the information gathered above and ask for any additional input from Committee members on: 1) the McKinsey statements; 2) producer assumptions/beliefs; 3) processor assumptions/beliefs; and 4) what else do we need to know. This information is due back to Mr. Morgan sometime in January (he will let them know of the date) before the next meeting. These points will be used at the Committee's next meeting.

Next Meeting

Monday, February 4, 2008, from 9:30 am - 2:30 pm @ Farm Bureau.

Whey Review Committee
December 28, 2007

Public Comments

Mr. Morgan asked if there were any public comments. Two persons spoke.

The meeting adjourned at 2:35 pm.

Original Signed By

Jeff Cesca, Special Assistant
CDFA – Marketing Services

Date