

May 19, 2015

Mr. Hyrum Eastman, Dairy Economic Advisor
California Department of Food and Agriculture
2800 Gateway Oaks
Sacramento, CA 95833

Re: Proposal – Hearing to consider temporary amendments to the Class 4b pricing formula

Dear Mr. Eastman:

On behalf of the three California producer trade associations – California Dairy Campaign (CDC), Milk Producers Council (MPC) and Western United Dairymen (WUD) – we respectfully submit the attached proposal to temporarily modify the California Class 4b pricing formula.

California’s dairy families face significant financial challenges, with high costs of operation ranging from feed costs to environmental/labor and other regulatory compliance costs. At the same time, our producers have received some of the lowest reported mailbox milk prices in the country. The practical result of this has been a general deterioration of the number of dairy families operating in the State, and significant financial damage to those who have remained.

While there are multiple factors that have resulted in California’s lower mailbox milk price relative to our out-of-state competition, we will be providing testimony in the hearing that demonstrates a significant driver is the difference in California’s monthly Class 4b price compared to the monthly Federal Order Class III price – the benchmark price for milk sold to cheese/whey manufacturers throughout the other milk-producing regions of the country.

Our three organizations – along with the three major California cooperatives (California Dairies, Inc., Dairy Farmers of America and Land O’Lakes) – have invested significant time and resources in the past several years towards facilitating a permanent change to our State’s Class 4b pricing formula that would bring our average monthly Class 4b price in alignment with the Federal Order Class III price. Most recently, we actively participated in the “California Dairy Future Task Force” in hopes of accomplishing this goal. We are also all aligned in support for a proposed California-Federal Milk Marketing Order (FMMO), which was submitted in February 2015 on behalf of the three California cooperatives. That proposal would, among other things, establish regulated manufacturing milk prices in California equal to the prices used in every one of the other ten FMMOs.

While that effort is in process, it is admittedly long-term in nature. We share the Secretary’s interest in exploring more immediate, temporary changes to the current Class 4b formula. Our organizations recognize the narrow scope of this hearing – specifically the portion of the Class 4b calculation that rely on dry whey prices as an input – and have crafted our proposal with those limitations in mind. We request that the changes be made for the period August 1, 2015 to July 31, 2017.

Specifically, we propose modifying the current sliding scale in the Class 4b formula to allow the whey factor to more closely reflect the whey value generated by the current Class III formula.

The current formula has been in place since August 1, 2012 and it is clear that it fails to track the whey value in federal orders in a reasonable manner. In fact, since then, the California whey value averaged \$1.79/cwt lower than in federal orders. We believe an adjustment to this calculation would not only restore equity in what our manufacturers are paying for milk relative to comparable manufacturers around the country, but would also generate much-needed additional revenue for dairy farmers, who are facing historically high operating costs (\$20.09 per hundredweight cost of production in the fourth quarter of 2014, according to CDFA data) while seeing their milk prices collapse well-below those costs (\$15.52 per hundredweight for quota milk and \$13.82 per hundredweight for overbase milk in March 2015).

Our organizations appreciate your efforts to call this hearing, and we look forward to providing testimony in support of our proposal.

Sincerely,



Lynne McBride
California Dairy Campaign



Rob Vandenheuvel
Milk Producers Council



Paul Martin
Western United Dairymen

Attachments:

- Proposed changes to the Stabilization and Marketing Plans for Northern and Southern California
- Charts demonstrating impact of proposed changes

ATTACHMENT A: Proposed changes to the Stabilization and Marketing Plans for Northern and Southern California:

Section 300 (E) The minimum price to be paid for components used for Class 4b shall be computed as follows, except as such procedures may be modified by Paragraph (H) of this Section:

(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, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance 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, less a manufacturing cost allowance of sixteen and thirty-five hundredths cents (\$0.1635), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven hundredths (0.27).

(c) The price per hundredweight for the whey factor value, corresponding to the monthly average dry whey price, based on the following schedule:

Average Western Monthly Dry Whey per lb	Whey Value per cwt
Less than \$0.2000	\$0.0000
\$0.2000 to \$0.2099	\$0.0360
\$0.2100 to \$0.2199	\$0.0968
\$0.2200 to \$0.2299	\$0.1575
\$0.2300 to \$0.2399	\$0.2183
\$0.2400 to \$0.2499	\$0.2791
\$0.2500 to \$0.2599	\$0.3398
\$0.2600 to \$0.2699	\$0.4006
\$0.2700 to \$0.2799	\$0.4614
\$0.2800 to \$0.2899	\$0.5222
\$0.2900 to \$0.2999	\$0.5829
\$0.3000 to \$0.3099	\$0.6437
\$0.3100 to \$0.3199	\$0.7045
\$0.3200 to \$0.3299	\$0.7652
\$0.3300 to \$0.3399	\$0.8260
\$0.3400 to \$0.3499	\$0.8868
\$0.3500 to \$0.3599	\$0.9475
\$0.3600 to \$0.3699	\$1.0083
\$0.3700 to \$0.3799	\$1.0691
\$0.3800 to \$0.3899	\$1.1299
\$0.3900 to \$0.3999	\$1.1906
\$0.4000 to \$0.4099	\$1.2514
\$0.4100 to \$0.4199	\$1.3122
\$0.4200 to \$0.4299	\$1.3729
\$0.4300 to \$0.4399	\$1.4337
\$0.4400 to \$0.4499	\$1.4945
\$0.4500 to \$0.4599	\$1.5552
\$0.4600 to \$0.4699	\$1.6160
\$0.4700 to \$0.4799	\$1.6768
\$0.4800 to \$0.4899	\$1.7376
\$0.4900 to \$0.4999	\$1.7983
\$0.5000 to \$0.5099	\$1.8591
\$0.5100 to \$0.5199	\$1.9199
\$0.5200 to \$0.5299	\$1.9806

Average Western Monthly Dry Whey per lb	Whey Value per cwt
\$0.5300 to \$0.5399	\$2.0414
\$0.5400 to \$0.5499	\$2.1022
\$0.5500 to \$0.5599	\$2.1629
\$0.5600 to \$0.5699	\$2.2237
\$0.5700 to \$0.5799	\$2.2845
\$0.5800 to \$0.5899	\$2.3453
\$0.5900 to \$0.5999	\$2.4060
\$0.6000 to \$0.6099	\$2.4668
\$0.6100 to \$0.6199	\$2.5276
\$0.6200 to \$0.6299	\$2.5883
\$0.6300 to \$0.6399	\$2.6491
\$0.6400 to \$0.6499	\$2.7099
\$0.6500 to \$0.6599	\$2.7706
\$0.6600 to \$0.6699	\$2.8314
\$0.6700 to \$0.6799	\$2.8922
\$0.6800 to \$0.6899	\$2.9530
\$0.6900 to \$0.6999	\$3.0137
\$0.7000 to \$0.7099	\$3.0745
\$0.7100 to \$0.7199	\$3.1353
\$0.7200 to \$0.7299	\$3.1960
\$0.7300 to \$0.7399	\$3.2568
\$0.7400 to \$0.7499	\$3.3176
\$0.7500 to \$0.7599	\$3.3783
\$0.7600 to \$0.7699	\$3.4391
\$0.7700 to \$0.7799	\$3.4999
\$0.7800 to \$0.7899	\$3.5607
\$0.7900 to \$0.7999	\$3.6214
\$0.8000 to \$0.8099	\$3.6822
\$0.8100 to \$0.8199	\$3.7430
\$0.8200 to \$0.8299	\$3.8037
\$0.8300 to \$0.8399	\$3.8645
\$0.8400 to \$0.8499	\$3.9253
\$0.8500 to \$0.8599	\$3.9860
More than \$0.86	\$4.0000

(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) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey – West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(7) 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.

(8) 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.

(9) In the event that the Dry Whey – West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey – West Mostly price used in the prior month's calculation of the Cheese hundredweight price.

(10) 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 4b price shall be increased by the following amounts:

(a) For milk fat, three and two-tenth mils (\$0.0032) per pound.

(b) For milk solids-not-fat, one and three-tenths mils (\$0.0013) per pound.

ATTACHMENT B: Impact of the proposal

Figure 1: Actual Class 4b price minus Class III price, May 2010-April 2015

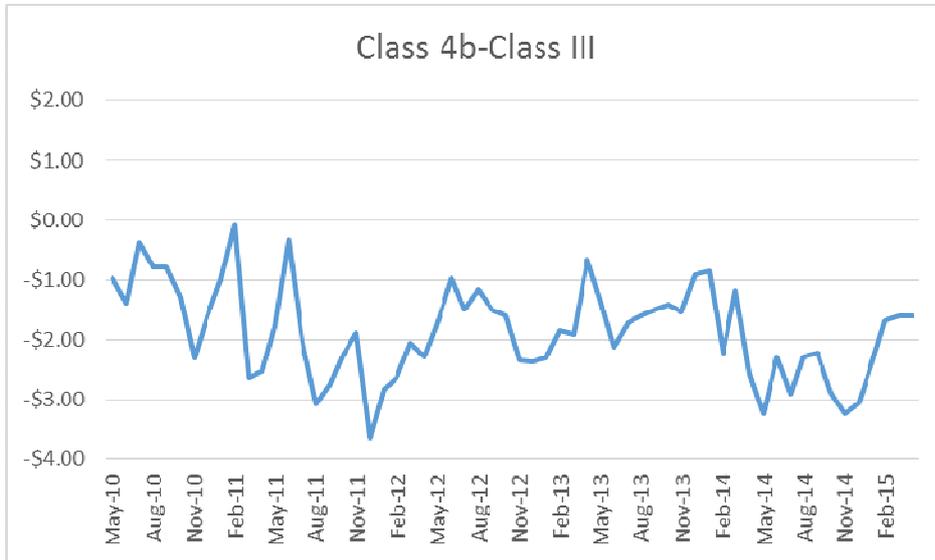


Figure 2: Class 4b price computed using the proposed whey scale minus Class III price, May 2010-April 2015

