

March 28, 2016

Karen Ross, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

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

Dear Ms. Secretary:

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 modify the California Class 4b pricing formula.

The current formula has been in place since August 1, 2015 and is set to expire July 31, 2016. The formula was put in place to provide some relief for low milk prices. Specifically, Secretary Ross stated the adjustment would “provide a needed increase in revenue to producers to ensure a stable milk supply”. While we appreciated the intention, it did not turn out as expected and relief did not happen. For the period August 2015 to February 2016, the temporary scale generated an average of 3.4 cents per hundredweight more to the Class 4b formula than the previous formula would have. Furthermore, milk production continued to fall. We have now been through 15 consecutive months of year-over-year declines. This is of great concern to our organizations.

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 as well as the continued impacts of the historic drought. 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.

Our three organizations – along with the three major California cooperatives (California Dairies, Inc., Dairy Farmers of America and Land O’Lakes, Inc.) – 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 Federal Milk Marketing Order (FMMO) process where each of our organizations testified in support of proposal 1. Proposal 1 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.

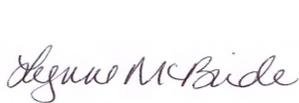
While the FMMO hearing is behind us, the process is not over and is admittedly long-term in nature. If approved by producers, implementation will not occur for at least another year. We share the Secretary’s interest in exploring changes to the current Class 4b formula. Our organizations recognize the narrow scope of this hearing – specifically the portion of the Class 4b calculation that relies on dry whey prices as an input – and have crafted our proposal with those limitations in mind. We request that the changes be made permanently.

Specifically, we propose modifying the current permanent 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.

We believe reverting to the previous whey scale that was in place before the temporary adjustment would be disastrous. The adjustment we propose would not only bring 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 as whey prices begin to slowly improve. California dairy families have been facing high operating costs (\$19.74 per hundredweight cost of production in the fourth quarter of 2015, according to CDFA data) while seeing their milk prices collapse well-below those costs (\$14.79 per hundredweight for quota milk and \$13.09 per hundredweight for overbase milk in February 2016). We are deeply concerned this will exacerbate the current situation of depressed milk supplies in the state.

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



Anja Raudabaugh
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.