

Department Calls Hearing

The California Department of Food and Agriculture (Department) has called a consolidated public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas (Plans) to be held on September 12, 2013 in the Department Auditorium, 1220 N Street, Sacramento, California 95814. Beginning at 8:00 a.m. the hearing will remain open until all testimony has been received. If necessary, the hearing will be continued the following day starting at 8:00 a.m. at the same location.

On July 22, 2013, the Department received a petition from a group of producer organizations: California Dairies, Inc., Milk Producers Council, California Dairy Campaign, and Western United Dairymen. Petitioners proposed a modification to the sliding scale that determines a dry whey factor in the Class 4b formula and to replace the temporary price adjustment currently in place with another.

The Department is considering the petition pursuant to FAC Sections 62031 through 62079, and 3 CCR 2080.2. A copy of the petition can be obtained by accessing the Department's web site at www.cdfa.ca.gov/dairy or by contacting the Dairy Marketing Branch at (916) 900-5014.

Call of Hearing – The hearing will consider three amendments to the Plans:

Temporary Price Adjustment

Specific proposals that would amend or change the provisions contained in Article III, Section 300, paragraph (H) of the Plans will be open for consideration at the hearing. Proponents of the petition and any alternative proposal shall address, at a minimum, the economic conditions that have changed that would warrant adjustments to the current temporary price established as a result of the May 20, 2013 hearing. Proposed temporary amendments or changes to the Class 4b price may only increase or decrease the per pound component prices of the class prices after all the computations found in Article III, Section 300, Paragraphs (A), (B), (C), (D), and (E) have been completed.

Whey Valuation

The hearing will also consider proposed changes to the whey factor in the Class 4b pricing formula and any other whey valuation changes that are raised by alternative proposals received in the time and format specified below. Proponents of the petition and any alternative proposals shall address the sufficiency of the calculation of the whey factor by reference to quantifiable economic data and methodologies; such as but not limited to: manufacturing cost data, marketing and sales data, and whey stream valuation directly applicable to California plants. Specific proposals that would amend or

change the provisions contained in Article III, Section 300, Paragraphs (E)(1)(c), (E)(6) and (E)(9) of the Plans, as well as the economic substantiation of the implementation of these provisions, will be open for consideration at the hearing.

Since 2011 the Department has received seven petitions and held four hearings to consider either temporary or permanent adjustments to whey valuation in the Class 4b formula. The Department has highlighted the issues and concerns with the serviceability of end product pricing components including whey valuation as outlined in the written results from previous hearings, industry letters from the Secretary and responses to hearing petitions. Specifically, these issues and concerns are the lack of transparent data that are readily available, data that cannot be published due to confidentiality, and data that are directly related to the manufacturing and marketing of California whey products.

Evidentiary Support and Legal Compliance

Proponents and opponents of the petition and alternative proposals shall include the factual basis, economic and other evidence and legal authority in support of the whey factor, any temporary price adjustment and any proposed amendments to the Plans. In relation to the whey factor, they shall address the extent to which the factor can be transparently calculated as a component of the Class 4b price and fairly imposed upon processors. The Department will consider this information as well as evidence presented at previous hearings referenced above, when making any amendments to the Plans, including any necessary to bring the calculation of market milk prices into legal compliance.

Alternative Proposals – All interested parties were entitled to submit alternative proposals detailing temporary price adjustments and adjustments in the whey valuation of the Class 4b pricing formula, to be received by 4:00 p.m. on August 20, 2013.

Copies of the transcripts of testimony received at the hearing will not be available for distribution via the Department, but are available for inspection at the Dairy Marketing Branch. If interested parties wish to purchase copies, arrangements may be made with the reporting service at the hearing.

The Department's entire hearing exhibit for this hearing will be available for public inspection at the Dairy Marketing Branch office on September 5, 2013.

California Minimum Class Prices

Hundredweight Prices

| Class | July | Aug. | Sept. |
|--------------|---------|---------|---------|
| 1 No. Calif. | \$19.59 | \$20.21 | \$20.28 |
| So. Calif. | \$19.86 | \$20.48 | \$20.56 |
| 2 No. Calif. | \$18.31 | \$18.91 | \$18.91 |
| So. Calif. | \$18.54 | \$18.14 | \$18.14 |
| 3 | \$18.26 | \$18.86 | \$18.86 |
| 4a | \$18.61 | N/A | N/A |
| 4b | \$15.65 | N/A | N/A |

Quota Transfer Summary

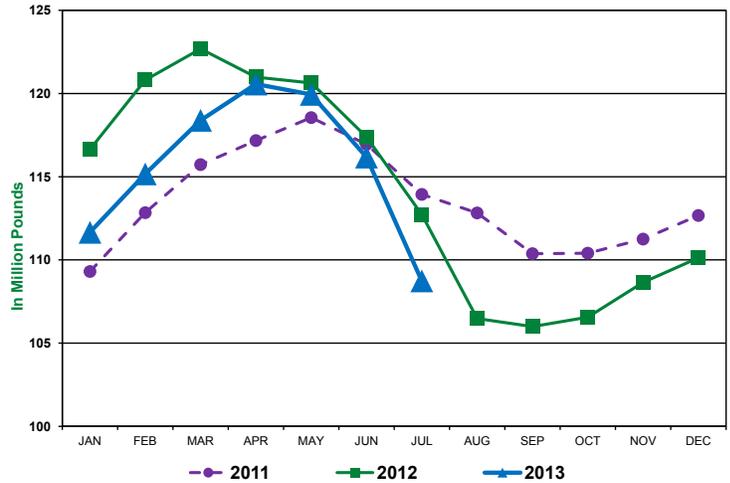
| Quota Transfers | June | July | Aug. |
|--------------------------------------|--------|--------|--------|
| Number of Sellers | 3 | 8 | 6 |
| Pounds of SNF Quota Transferred | 14,168 | 16,431 | 10,911 |
| Average Price Per Pound of SNF Quota | \$400 | \$404 | \$398 |

California Pool Prices

| Pool Price | May | June | July |
|------------|---------|---------|---------|
| Quota | \$19.13 | \$18.78 | \$18.55 |
| Overbase | \$17.43 | \$17.08 | \$16.85 |

California Milk Production

Average Daily Basis: 2011, 2012, 2013



February 2012 Milk Production included 29 days.

California Milk Production Cost Comparison, by Region, 1st Quarter 2012-2013

| Quarter | North Coast | | North Valley | | South Valley | | Southern California | | Statewide Weighted Average | |
|----------------------------------|-------------|---------|--------------|---------|--------------|---------|---------------------|---------|----------------------------|---------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| <i>Dollars per Hundredweight</i> | | | | | | | | | | |
| 1st Quarter | | | | | | | | | | |
| Total Costs | \$23.47 | \$24.44 | \$16.79 | \$17.64 | \$16.31 | \$17.57 | \$16.36 | \$16.96 | \$16.63 | \$17.69 |
| Total Costs & Allowances* | \$25.28 | \$26.14 | \$18.21 | \$19.08 | \$17.77 | \$19.06 | \$17.89 | \$18.38 | \$18.09 | \$19.16 |

*Includes an allowance for management and a return on investment.

California Alfalfa Hay Monthly Weighted Average Prices – Delivered

| Week Ending | July 26, 2013 | | August 2, 2013 | | August 9, 2013 | | August 16, 2013 | |
|--|---------------|-------------|----------------|-------------|----------------|-------------|-----------------|-------------|
| | Tons | Price Range | Tons | Price Range | Tons | Price Range | Tons | Price Range |
| Tulare, Hanford Areas | | | | | | | | |
| Supreme | 2,100 | \$285-\$300 | 2,850 | \$290-\$310 | 1,700 | \$285-\$305 | 1,100 | \$290-\$305 |
| Premium | 800 | \$265-\$280 | 1,350 | \$265-\$278 | 550 | \$265-\$280 | 900 | \$265-\$280 |
| Good | 4,200 | \$245-\$260 | 7,225 | \$240-\$260 | 2,500 | \$240-\$260 | 2,350 | \$245-\$263 |
| Fair | 9,250 | \$227-\$240 | 9,375 | \$225-\$240 | 6,775 | \$220-\$236 | 6,800 | \$220-\$235 |
| Escalon, Modesto, Turlock Areas | | | | | | | | |
| Supreme | 916 | \$273-\$290 | 775 | \$268-\$295 | 4,575 | \$275-\$305 | 600 | \$275-\$295 |
| Premium | 600 | \$265-\$278 | 1,000 | \$265-\$280 | 1,000 | \$270-\$280 | 400 | \$265-\$275 |
| Good | 250 | \$238-\$250 | 600 | \$233-\$245 | 1,380 | \$243-\$250 | 1,275 | \$230-\$245 |
| Fair | 1,675 | \$210-\$235 | 1,825 | \$210-\$225 | 825 | \$205-\$230 | 2,950 | \$215-\$225 |

Source: The Hoyt Report, Inc.

Federal Order Minimum Class Prices

Hundredweight Prices

| Class I | July | Aug. | Sept. |
|--------------------|----------------|------------|------------|
| Phoenix, Arizona | \$21.26 | \$21.23 | \$21.51 |
| Portland, Oregon | \$20.81 | \$20.78 | \$21.06 |
| Boston (Northeast) | \$22.16 | \$22.13 | \$22.41 |
| Class III | \$17.38 | N/A | N/A |

USDA Dairy Cow Culling Activity

| Week Ending | Region 9 ¹ Dairy Cows | U.S. Dairy Cows | West Region ² Price Range |
|-------------|----------------------------------|-----------------|--------------------------------------|
| | Head | Head | \$/cwt. |
| 7/20/13 | 15,100 | 55,600 | \$67-\$85 |
| 7/27/13 | 15,400 | 57,200 | \$65-\$79 |
| 8/03/13 | 15,600 | 60,700 | \$66-\$79 |
| 8/10/13 | 14,800 | 58,800 | \$71-\$81 |
| 8/17/13 | N/A | N/A | \$69-\$71 |

¹ Region 9 includes AZ, CA, HI and NV

² West region includes AZ, NV, UT, CA, ID, OR and WA

Source: USDA Market News: Report LM_CT168 and SJ_LS714

USDA Commercial Cold Storage Report

| Month | Butter | | American Cheese | | Nonfat Dry Milk | |
|--------------------------|--------|------|-----------------|------|-----------------|------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| <i>In Million Pounds</i> | | | | | | |
| January | 170 | 207 | 612 | 644 | 159 | 249 |
| February | 205 | 240 | 608 | 667 | 196 | 225 |
| March | 211 | 255 | 622 | 680 | 210 | 214 |
| April | 254 | 310 | 632 | 699 | 227 | 208 |
| May | 264 | 321 | 623 | 714 | 215 | 227 |
| June | 243 | 319 | 630 | 711 | 145 | 230 |
| July | 234 | 296 | 635 | 705 | 130 | - |
| August | 201 | | 614 | | 106 | |
| September | 195 | | 608 | | 118 | |
| October | 145 | | 582 | | 104 | |
| November | 127 | | 581 | | 127 | |
| December | 153 | | 605 | | 181 | |

Source: USDA, Farm Services Agency, NASS Cold Storage and Dairy Products. (As published in the Dairy Market News)

USDA Milk-Feed Price Ratio

USDA reports that the milk-feed price ratio for July 2013 was 1.52 (no change from June 2013). The current ratio of 1.52 means that a dairy producer can buy 1.52 pounds of feed for every pound of milk sold. The prices used to calculate the July 2013 milk-feed price ratio were: corn \$6.83/bushel; baled alfalfa hay \$209/ton; soybeans \$15.40/bushel; all-milk price \$19.10/cwt. (decreased \$0.40 from June 2013).

Prices used to calculate the milk-feed price ratio are based on U.S. prices and don't necessarily reflect California prices.

National Dairy Situation & Outlook USDA Estimates

Milk Production

Note: Through September 2013, USDA will only publish administrative data for Milk Production (there will be no "milk per cow" or "number of cows" data available).

Monthly: USDA estimates overall milk production across the U.S. was up by 1.1% in July 2013, compared to July 2012. USDA reports that California milk production decreased 3.5% compared to July 2012. Among other western states, compared to July 2012, Arizona was down 2.0%; New Mexico was up 1.9%; and Washington was up 3.8%. Two of the top 10 states reported a production decrease. The largest increase was reported by Kansas at 10.8% growth in milk production.

Quarterly: For the second quarter of 2013, U.S. milk cow numbers and milk production per cow were not available. Milk production increased to 52.0 billion pounds compared to first quarter 2013 production. USDA projects that for the third quarter of 2013 compared to the second quarter of 2013, milk production will decrease to 49.8 billion pounds.

Milk Prices

Comparing the second quarter of 2013 to the first quarter of 2013, U.S. average all-milk prices increased to \$19.57/cwt. USDA projects that for the third quarter of 2013, U.S. average all-milk prices will be \$19.60-19.90/cwt.; Class III prices will be \$17.75-18.05/cwt.; and Class IV prices will be \$18.75-19.15/cwt.

Utility Cow Prices

Comparing the second quarter of 2013 to the first quarter of 2013, average U.S. utility cow prices were down \$0.41/cwt. to a national average of \$77.46/cwt. USDA projects that utility cow prices will average \$78-81/cwt. in the third quarter of 2013.

Top Ten Milk Production States - July 2013

(Percent Change from Same Month/Previous Year)

| | | | |
|-----------------|-------|----------------|-------|
| 1. California | -3.5% | 6. Texas | +5.3% |
| 2. Wisconsin | +2.9% | 7. Michigan | +3.1% |
| 3. Idaho | -1.1% | 8. Minnesota | +2.9% |
| 4. New York | +1.1% | 9. New Mexico | +1.9% |
| 5. Pennsylvania | +1.2% | 10. Washington | +3.8% |

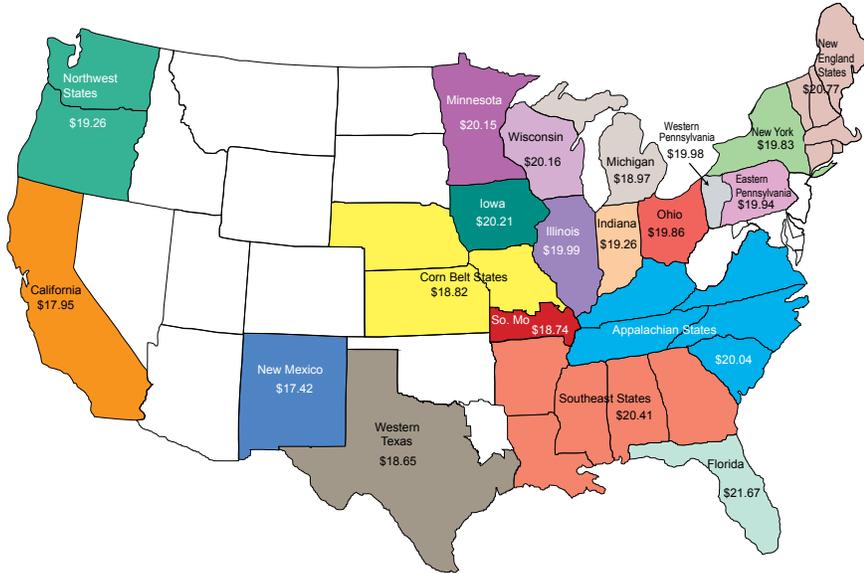
Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook."

Milk Mailbox Prices in Dollars per Hundredweight - 2013

| Area | Jan. | Feb. | March | April | May | June | July | August | Sept. | Oct. | Nov. | Dec. |
|------------|---------|---------|---------|---------|-------|------|------|--------|-------|------|------|------|
| California | \$17.73 | \$17.58 | \$17.05 | \$17.90 | 17.95 | | | | | | | |
| USDA | \$20.18 | \$19.56 | \$19.30 | \$19.45 | 19.63 | | | | | | | |

¹ California mailbox price calculated by CDFA

² All federal milk market order weighted average, as calculated by USDA.



In May 2013, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$19.63 per cwt., up \$0.18 from the April 2013 average, and up \$3.34 from the May 2012 average. The component tests of producer milk in May 2013 were: butterfat, 3.69%; protein, 3.08%; and other solids, 5.76%. On an individual reporting area basis, mailbox prices decreased in four Federal milk order reporting areas, increased in 14 Federal milk order reporting areas, and stayed the same in one milk order reporting area when compared to the previous month. Mailbox prices in May 2013 ranged from \$21.67 in Florida to \$17.42 in New Mexico.

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 Outside California 1-916-442-MILK

The California Department of Food and Agriculture Dairy Marketing Branch publishes the California Dairy Review monthly. Please direct any comments or subscription requests to Karen Dapper or Lu Tang at (916) 900-5014, or send an email to dairy@cdffa.ca.gov

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