Dairy Farmers of America

July 11, 2011

Candace Gates, Branch Chief
Dairy Marketing Branch
California Department of Food & Agriculture
1220 N Street
Sacramento, CA 95814

RE: June 30-July 1 Public Hearing – Post Hearing Brief

Dear Ms. Gates:

Dairy Farmers of America, Inc. (DFA) would like to offer the following comments respective to the Hearing held June 30 – July 1 regarding petitions made by California Dairies, Inc. (CDI), Land O' Lakes, Inc. (LOL) and alternative proposals made by Western United Dairymen, Inc. (WUD) and the Dairy Institute (DI) concerning product price formulas used by the California Department of Food and Agriculture (CDFA) to establish minimum milk prices in the state.

DFA's position at the hearing was in support of the WUD proposal. We also support the LOL proposal although it would be our second alternative. The technical workings of the price formulas were adequately discussed at the hearing and we do not see a reason to reproduce them. Thus our comments will be directed towards the policy or rationale for making changes in the pricing formulas.

While there were differing viewpoints offered as to the method to use in recognizing the contribution value of whey to the Class 4b price formula, the proposals and/or petitions offered at the hearing made clear that the current method did not value whey competitively with the surrounding markets (Federal Orders). As shown in the CDFA exhibits all of the alternative methods proposed would have increased the Class 4b return over time and thus confirmed that the current method undervalues the whey contribution to the 4b price.

CDFA is faced with two general alternatives in striving to reflect the proper whey value in the 4b price formula. It can either use a make allowance construct as it does with the other commodity components in the formula or a bracket system to assign a value to whey. Should CDFA choose to use the make allowance construct then it will have options (Federal Order make allowances or previous California data) since current California data is not available. We believe adequate rationale exists for using either the Federal Order data or the previous California data. Should CDFA determine these are not a reasonable and qualified alternative, then the use of a fixed price bracket system is another legitimate alternative. Since a fixed price bracket system is in use now (albeit a single bracket) it has already been deemed acceptable by CDFA and would be suitable for expanded use. We would encourage CDFA to adopt a system that moves up and down as whey prices change. Following the design of all proposals the system should have a floor value.

580 N. Wilma Avenue, Suite H • Ripon, California • 95366
(951) 493-4902 • Fax: (951) 493-4903

A key requirement in the Department's decision making process is to establish a reasonable relationship between Federal Order prices and CDFA prices. It seems inequitable to us that CDFA could choose to keep a pricing model in place that results in a class 4b price averaging 97 cents below the Federal Order Class III price over an extended period of time. Based on the requirements of Food & Ag Code section 62062, CDFA has an obligation to bring California pricing in closer alignment with the Federal Orders.

There were two alternatives presented for a bracket system. We support the proposal made by LOL versus that offered by the Dairy institute. The Dairy Institute petition results lag the Federal Order values by a much wider margin – as shown by CDFA's own hearing exhibits.

Along with changes in the whey contribution values to the 4b formula the other make allowance and cost adjustor changes that were proposed should be reviewed by the hearing panel and evaluated for inclusion in the formulas using standards similar to those used in prior survey publications and hearings. That is, warranted adjustments should be made in a timely manner. Since the Department publishes cost data annually, new data is always just a few months away and resulting changes can be dealt with in a timely manner.

In regard to a question from the Hearing panel relative to our desire to see a make allowance for whey that would reflect the value of processing and marketing higher protein percentage whey products, we would offer the following suggestion. We would ask that CDFA collect manufacturing cost data for a variety of other value-added whey products produced in California, utilizing all available data to arrive at a composite conversion cost (make allowance). The product values could be established as whey is today from independently published sources to reflect the comprehensive value of whey and the potential dollars that this would contribute to the pool. Short of this more comprehensive look at the whey values, we will always question whether we have really captured the total value. We would be more than happy to discuss this in further detail with the department should you desire for future consideration.

Thank you for the opportunity to file a post hearing brief.

Sincerely,

Glenn Wallace
Vice President & COO
Dairy Farmers of America
Western Area Council