

March 15, 2012

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

Dear Secretary Ross:

On behalf of Kraft Foods, I am writing to request CDFA deny the petitions from Western United Dairymen and the “coalition” as it pertains to the 4B milk price formula. As I mentioned in my letter in December, there is nothing new to discuss as this topic was reviewed at the June 30-July 1, 2011 hearing. The hearing panel of CDFA recommended a change in the 4B milk price formula that resulted in an increase from the prior formula. This formula was put into place 6 months ago and needs to be analyzed over a longer period of time before making any changes to it. Additionally, whey prices have declined sharply in the last few months. Using the NASS whey futures price for May of \$0.48, that represents a 30% drop from January’s level. A regulated system needs to have stability. Revisiting a topic that has been discussed at length numerous times over the past decade is not productive.

The question on how to incorporate a whey price component into the 4B milk price formula is part of a much larger question – does the state of California, and the US for that matter, have the proper framework to grow in the future? Studies from McKinsey, Bain, and Rabobank, in addition to other projections, have all pointed to great potential for US dairy products in the export market. This will benefit the entire US dairy industry, but particularly the California dairy industry given their location and proximity to growing markets in Asia. However, policies and regulated pricing structures from a different era and focused on local or regional domestic markets do not provide the proper framework for the US dairy industry to compete effectively in the global marketplace. Indeed, it is past time to have a serious discussion amongst the dairy industry on what policies should be adopted to foster this growth. I thank you for your leadership in bringing together the Dairy Advisory Committee this week to discuss these challenges.

The state of California has the potential to supply growing dairy demand around the world. Instability in a regulated pricing system will have long-term negative consequences. Investments will be limited, innovation will be stymied, and global buyers will not view California companies as reliable suppliers.

In closing, for the above reasons, I request the Western United Dairymen and “coalition” petitions for a hearing be denied.

Sincerely,

Michael McCully

Michael McCully
Director, Dairy Procurement
Kraft Foods

Cc: Sandra Schubert, Undersecretary, CDFA
Kevin Masuhara, Director, CDFA Marketing Division
Candace Gates, Chief, CDFA Dairy Marketing