



# MILK PRODUCERS COUNCIL

*“Serving the Dairy Industry for More Than 60 Years”*

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March 7, 2013

Hearing Officer  
c/o CDFA Milk Pooling Branch  
1220 N Street  
Sacramento, CA 95814

## **Re: Request to expand scope of April 4, 2013 hearing and an alternative proposal**

Dear Mr. Hearing Officer,

On January 29, 2013, the California Department of Food and Agriculture (CDFA) announced a public hearing scheduled for April 4, 2013 to “*consider amendments to the milk movement incentives as provided in the [Pooling Plan] and [Stab Plans].*” The hearing was scheduled after a request by Wallaby Yogurt Company, an organic yogurt company located in California’s Napa County. The request included no changes to the current transportation allowance rates, but rather to simply add Napa County in the “North Bay Receiving Area,” which would allow milk sold to Wallaby to be eligible for transportation subsidies. Based on this information, Milk Producers Council (MPC) chose not to submit an alternative proposal.

However, on March 4, 2013, CDFA’s website was updated and it was revealed that two alternative proposals had been submitted to CDFA that would modify and increase the available transportation allowance rates for the various receiving areas. These alternative proposals, if considered during the hearing process, would greatly increase the potential economic impact of any decision coming out of the April 4, 2013 hearing.

Given these new facts, MPC has two requests:

1. We request that the call of the hearing be expanded to include Sections 300 (A), (B) and (C) of the Stabilization and Marketing Plans for Market Milk. These changes are needed in order to facilitate the alternative proposal below.
2. We submit the attached alternative proposal, which would create a “transportation surcharge” adjustment on the Class 1, 2 and 3 pricing formulas, which would result in the marketplace carrying part of the burden for funding the State’s transportation subsidy program.

It has been pointed out by many others that as dairies migrate from urban areas – whether for real estate development reasons in the past or devastating economic reasons in the present – it becomes more difficult to provide the Class 1, 2 and 3 plants located in those urban areas with a reliable supply of milk. California Dairies, Inc. noted this in their February 20, 2013 letter to CDFA, stating that “...*milk has to be*

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*moved longer distances to accommodate customers in Southern California as the milk production base in the southern part of the state shrinks.”*

Even without any modifications to the transportation allowance rates, the changing dynamics of hauling milk around the state and the steady escalation of milk hauling costs has already expanded our transportation subsidy program to significant levels. In 2012, CDFA removed more than \$34 million from the California pool in order to fund the transportation allowance program. This represents an estimated **\$.35 per hundredweight** being taken out of our Class 1, 2 and 3 milk revenues in order to fund the transportation allowance program.

**It is time for the consumers to carry their fair share of these constantly increasing hauling costs.** MPC proposes that a simple “transportation surcharge” be added to the Class 1, 2 and 3 pricing formulas to allow the transportation allowance program to be at least partially funded by market-based revenues, rather than merely producer pool revenues.

Our alternative proposal would result in a 50% cost-share of the transportation allowance program, with half being funded from the producer pool and the other half funded through a market-based transportation surcharge. The surcharge would increase the Class 1, 2 and 3 monthly prices by approximately \$.17 per hundredweight, which based on information from the past year, would generate about half the revenue needed to fund the transportation allowance program.

We recognize that CDFA announced a March 1, 2013 deadline for submitting alternative proposals. However, as stated earlier, MPC had chosen not to submit an alternative proposal based on the information available prior to March 1<sup>st</sup>. It wasn't until the CDFA website was updated on March 4<sup>th</sup> that we realized there were proposals submitted to CDFA that could significantly impact California pool revenues through modifications and increases to the transportation allowance rates. Therefore, we ask CDFA to allow consideration of our request given the significant change in the potential impact that the April 4<sup>th</sup> hearing could have on how producer pool revenues are used.

Please feel free to contact MPC with any questions you may have regarding this request.

Sincerely,



Robert Vandenneuvel  
Milk Producers Council

Attachment: Alternative Proposal

**Proposed Modifications to Both the Northern California  
and Southern California Stabilization and Marketing Plans for Market Milk**

**Excerpts from Section 300.0.**

The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

(A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference Price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, minus twenty and three-tenths cents (\$0.203), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8, **plus a transportation surcharge of nineteen-hundredths cents (\$0.0019)** [*NORTHERN CALIFORNIA STAB PLAN*: , and then \$0.0031 per pound subtracted from the result.].

(B) The minimum bimonthly prices for components used for Class 2 shall be determined at the beginning of each even month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the Average Class 4a fat price, **plus a transportation surcharge of one and four-tenths cents (\$0.014)**.

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus [*SOUTHERN CALIFORNIA STAB PLAN*: seven and fifty-seven hundredths cents (\$0.0757) per pound]/[*NORTHERN CALIFORNIA STAB PLAN*: four and ninety hundredths cents (\$0.0490) per pound], **plus a transportation surcharge of one and four-tenths cents (\$0.014)** .

(C) The minimum bimonthly prices for components used for Class 3 shall be determined at the beginning of each even month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the Average Class 4a fat price, **plus a transportation surcharge of one and four-tenths cents (\$0.014)**.

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus four and thirty-three hundredths cents (\$0.0433) per pound, **plus a transportation surcharge of one and four-tenths cents (\$0.014)**.