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“Serving the Dairy Industry for More Than 60 Years”

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April 18, 2016

Mr. Donald Shippelhoute, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Re: Post Hearing Brief for April 11th Milk Pricing Hearing

Dear Mr. Shippelhoute and Members of the Hearing Panel,

Milk Producers Council (MPC) appreciates the opportunity to submit the following post-hearing brief to address a request posed by a member of the Hearing Panel.

Hoard’s Dairyman Editorial

During my testimony, I read into the record excerpts from a March 25, 2016 editorial published by Hoard’s Dairyman entitled, “Federal Orders Haven’t Impeded Dairy Sales.” Per a request by the hearing panel, the full printed editorial is attached on the next page.

I chose to read portions of this editorial into the record after hearing testimony from numerous California cheese manufacturers predicting unsupported doom-and-gloom impacts to their business if the Panel were to recommend – and the Secretary were to ultimately implement – the joint proposal submitted by California Dairy Campaign, MPC and Western United Dairyman. These manufacturing witnesses failed to acknowledge the fact that the producer proposal would *continue* to result in a lower Class 4b minimum price than the Federal Order Class III price, albeit by a smaller differential than the \$2.41 per hundredweight gap these milk buyers enjoyed in 2014.

Further, as the Hoard’s Dairyman editorial below suggests, cheese manufacturers such as Saputo Inc. (which buys Class 4b milk in California and has testified in CDFA and USDA milk pricing hearings) may stick to their talking points supporting reduced regulated milk prices when giving testimony before CDFA and USDA, but they are portraying a much different message in other venues and through their investments. The editorial below quotes Saputo Inc.’s CEO saying at a recent gathering of North American dairy manufacturers, “Our job is to be the best processor... Our job isn’t to change regulations.” The editorial also documents the tremendous growth that Saputo has seen in the past 30 years in the U.S., which includes growth in the California market.

As MPC testified to in this hearing, we are seeing the unfortunate result of a several years of a significant milk price disadvantage for our State's dairy families: 15 straight months of year-over-year declines in milk production – an unprecedented trend in California. A comparison of CDFA's cost-of-production data and the average milk prices paid – as is shown in MPC's testimony – paints a sobering picture that only the producer proposal would begin to address.

MPC urges the Hearing Panel to consider these facts in evaluating the modifications needed to the Class 4b calculation.

Sincerely,



Robert Vandenneuvel
General Manager
Milk Producers Council

From the March 25, 2016 Issue of *Hoard's Dairyman*:

**EDITORIAL COMMENT:
FEDERAL ORDERS HAVEN'T IMPEDED DAIRY SALES**

It was refreshing to hear a global dairy processor suggest that Federal Milk Marketing Orders and the associated regulations haven't prevented his company from growing in the U.S. This dialogue took place as fellow dairy processors continued to harp on federal milk pricing rules as a market impediment during the largest gathering of North American dairy manufacturers.

Granted, Lino Saputo, CEO of Saputo Inc., has a far different perspective than his American counterparts. Based in Canada, Federal Milk Marketing Orders appear more like a single strand of a chain compared to Canada's supply management system that resembles a much stronger chain-link fence. "It's regulatory and market access to milk that is key to us," Saputo said, when discussing where his family business might pursue its next dairy plant acquisition.

When stating that access to milk is key to growing his business, Saputo and his 75-year-old company back up that statement with action. Starting in 1980, Saputo acquired its first two U.S. plants. Since then, that number has grown to 24, now outranking the company's total in Canada. The list includes Stella Foods, Treasure Cave, Nauvoo, the Land O'Lakes West Coast industrial cheese business, Fairmount Cheese Holdings and Morningstar Foods. The boldest move took place in 2008 when Saputo purchased controlling interest in Alto Dairy Cooperative, then the nation's 19th largest farmer-owned dairy business.

To say the least, Saputo has repeatedly voted with its wallet, reconfirming that the U.S. is a place where the company can grow and market regulation is not a hindrance. “Our job is to be the best processor,” said Saputo of his organization’s focus. “Our job isn’t to change regulations.”

Not only could all dairy processing interests benefit from that attitude, the beverage sector could use a double dose. Mired in decades of lackluster innovation, we were pleased to also hear candid comments from Fairlife’s CEO Stephen Jones on the same panel.

“We can grow the industry with better packaging and marketing,” said the innovator in the fluid category. “Packaging in the milk industry sucks,” Jones said, asking other companies to join Fairlife to recreate dairy.

We couldn’t agree more with Saputo and Jones. Both offer refreshing insight from the CEO perspective and back it up with action without relying on federal order bashing to potentially improve their respective company’s bottom line.

*Used by permission from the March 25, 2016, issue of Hoard’s Dairyman.
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