



CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

Karen Ross, Secretary

July 20, 2012

Dear Dairy Industry Stakeholders,

Recent years have presented challenging times for dairy farmers and their families. Although 2010 and early 2011 brought improved markets and prices for milk and dairy products, many dairy operations are still struggling to recapture lost equity as a result of the 2009 economic downturn. As Secretary, I am determined to help maintain California's dairy heritage as the state's most valuable agricultural commodity and the country's top dairy producer. Working together, I have great faith that dairy farmers, cooperatives, processors and CDFA can position this industry as the leader in innovation – offering an array of product choices to meet consumer demand here and around the world.

We rely on these products for good nutrition and healthy lifestyles for our citizens—especially our children—and for their substantial economic impact locally and statewide. Additionally, dairy farmers' commitment to responsible stewardship on their land is a critical piece in the ongoing drive for sustainability.

When considering the recent whey factor petitions brought forth by producers and processors, the Department's dairy experts and economists thoroughly evaluated the petitions and supporting information and made a recommendation to leave the whey factor unchanged. I appreciate the many hours of analysis and research behind the recommendation. Normally, I would be inclined to accept the recommendation of these experts.

However, feed costs, which were already high, have been exacerbated by a drought that is gripping vast parts of this country, causing crop failures and driving up grain and hay prices. In just the last few weeks, the official USDA crop estimates have been revised significantly downward. The uncertain situation facing many dairy families who must buy feed in the open market is of great concern to me.

Therefore, I believe it is necessary to make an alteration to the whey factor formula. Effective August 1, 2012, the Department will increase the cap on the whey factor value in the Class 4b formula from \$0.65/cwt. to \$0.75/cwt., while maintaining the current floor of \$0.25/cwt. For each five cent 'step' in the dry whey commodity price, the corresponding whey factor will increase in \$0.0625/cwt. increments.

The effect of the new sliding scale is an increase in the Class 4b price of approximately \$0.10/cwt. when the dry whey commodity market is at the upper end of the new scale. More information about this change may be found at:

<http://cdfa.ca.gov/dairy/uploader/postings/hearings/>



I recognize that processors have financial challenges of their own and that this action will increase their costs. But I believe this is an essential step to maintain the crucial balance between processors and producers while ensuring consumers have an affordable supply of milk. As always, our economists will diligently monitor financial conditions and they stand ready to make additional recommendations for change as necessary.

Clearly, this is a smaller adjustment than requested by the petitioners, but to increase it more at this time would likely have a negative impact on other segments of the industry. Additionally, I feel the solution sought by producers in requesting a more significant increase in the whey factor is just a small piece of a much larger issue – the overall pricing structure for California milk and dairy products. We must attack this larger and longer term issue; we can no longer nibble around the edges or push the discussion off.

With that in mind, I am creating the California Dairy Future Task Force, which will be charged with developing recommendations for structural changes to our dairy pricing formula as well as other milk marketing regulations to establish a more stable foundation to provide a bright future for California dairy families and processors. It is imperative that we all work together—processors, producers, cooperatives and the Department—to evaluate and resolve the critical issues facing the dairy industry. We must work as one and not in factions. More information about the Task Force will be announced in the near future.

My profound thanks to the dairy industry for all it does to provide a spectacular bounty of milk and dairy products to California, the nation and the world.

Sincerely,

A handwritten signature in cursive script that reads "Karen Ross".

Karen Ross  
Secretary