

March 13, 2012

Dear Secretary Ross,

My name is Bruce Burroughs. I am a third generation California dairyman from Merced County and I want to comment about the petition concerning whey pricing in the milk pricing formula for California milk.

The California dairy industry has thrived over the past 50 years even though we have had the lowest milk prices in the nation because we had significantly lower costs due to our climate, economies of scale, and our ability to purchase cheap feed. That last item is no longer true due to things like the ethanol mandate and so we can no longer compete with other areas of the country if we don't have competitive milk pricing. Cheese plants in federal order areas of the country have had to deal with much higher mandated prices for whey for many years and they are still producing lots of cheese in places like Wisconsin which still has lots of small cheese plants. There is clearly an ability to make money by selling whey products and it does not seem fair to make California dairyman accept lower prices so that a cheese plant can just dump whey into the animal feed market. If they can afford to do that, then it would seem that the price they are receiving for their cheese is way higher than the bulk CME cheese price that dairyman receive and that plant also receives the make allowance. I know that it is possible in federal order areas for plants to depool, but last year only 4% of the milk in federal orders was depooled. Another factor is that there is a new farm bill going to be written and the "Foundation for the Future" program is likely to be in it.

The safety net portion of that program is margin insurance which gives each participating dairyman a guaranteed margin between a milk price and a feed cost. The relevant part of this is that the milk price that is used is likely to be based all or in part on the federal Class III price. If our California price is not related to the federal price in some reasonable and consistent way, then we are not going to have a reliable margin like federal order dairyman and thus we won't have a safety net.

Finally, we are trying to do risk management. There are ways to do futures contracts that have prices which are closely related to our 4b price, but if I want to do options and maintain upside potential, then I have to do them on the CME. Federal Class IV prices are very close to our California 4a prices, but with the differences caused by how whey is priced, Class 4b and federal Class III prices can vary by very large amounts. It means that I can't manage my risk for the 4b part of my milk price very well, because going forward by 6 months or a year, I have very little idea what the difference will be between my milk price and the futures and options milk price on the CME.

For all these reasons I want to encourage you to change the whey price portion of our California Class 4b price to more closely align itself with how whey is priced in the federal order Class III price.

Thank you for your consideration,  
Bruce Burroughs  
Sierra Vista Dairy