

July 19, 2013

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

Re: Petition for CDFA Hearing

Dear Secretary Ross:

On behalf of the undersigned organizations – representing dairy producer interests in California – we submit the following petition for a public hearing to be called to consider specific modifications to the California minimum price formulas. The hearing is being requested under your authority outlined in 3 CCR 2080.2.

In summary, the attached proposal would:

- Modify the sliding scale that determines a dry whey factor in the Class 4b formula (*Section 300(E) of the Stabilization and Marketing Plans*).
- Replace the “temporary price adjustment” that is currently in place with a “temporary price adjustment” for the period specified in the attached document and placing the relief on the Class 4b milk price (*Section 300(H) of the Stabilization and Marketing Plans*).

The proposed formula modifications are based on economic factors that statutorily must be considered in establishing California’s minimum prices.

*Section 62062 of the California Food and Agricultural Code requires CDFA to maintain a “reasonable and sound economic relationship” between California’s minimum prices and the prices paid for comparable milk sold around the country.*

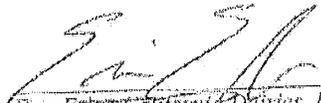
There continues to be a wide gap between California’s Class 4b price and the regulated prices for comparable milk sold around the country. Since the May 2012 hearing on the Class 4b formula, the gap between the Federal Order Class III and California Class 4b prices has averaged \$1.66 per hundredweight. That gap reached \$2.36 per hundredweight in December 2012 and rose back above the \$2 level at \$2.11 per hundredweight in June 2013.

*Section 62062(a) of the California Food and Agricultural Code requires CDFA to consider the relationship between the prices paid for California-produced milk vs. the cost of producing that milk, including a cost of management and a reasonable return on necessary capital investment.*

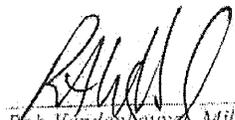
Using data from CDFA, the difference between the California “Statewide Blend” milk price and the quarterly cost of production since January 2012 has averaged a negative \$2.22 per hundredweight. The most current data available indicates that the cost of producing milk exceeded the Statewide Blend milk price by \$1.45 per hundredweight during the first quarter of 2013.

We request that this public hearing be scheduled as soon as possible, and given the familiarity with the subject matter and the strong support reflected in this petition, we request that the formula changes be implemented in accordance with the dates specified in the attached document.

Sincerely,

  
Eric Firth, California Dairies, Inc.

  
Lynn McBride, California Dairy Campaign

  
Bob Vandenberg, Milk Producers Council

  
Michael Marsh, Western United Dairymen

***Proposed Changes to Article III, Section 300.0(E) of the Stabilization and Marketing Plans for Northern California (Plan 59) and Southern California (Plan 74):***

The minimum prices to be paid for components used for Class 4b shall be computed as follows, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

- (1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:
  - (a) The price per hundredweight computed by the formula using the Cheddar cheese price, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of nineteen and eighty-eight hundredths cents (\$0.1988), all multiplied by a yield factor of ten and two-tenths (10.2).
  - (b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of sixteen and thirty-five hundredths cents (\$0.1635), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
  - (c) The price per hundredweight for the whey factor value, corresponding to the monthly average dry whey price, based on the following schedule:

<b>Monthly Average Dry Whey Price (\$/lb)</b>	<b>Whey Factor Value (\$/cwt.)</b>
< \$0.25	\$0.2500
≥ \$0.25 and < \$0.30	\$0.3438
≥ \$0.30 and < \$0.35	\$0.4375
≥ \$0.35 and < \$0.40	\$0.5313
≥ \$0.40 and < \$0.45	\$0.6250
≥ \$0.45 and < \$0.50	\$0.7188
≥ \$0.50 and < \$0.55	\$0.8125
≥ \$0.55 and < \$0.60	\$0.9063
≥ \$0.60	\$1.0000

- (2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
- (3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).

- (4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (6) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey – West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.
- (8) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.
- (9) In the event that the Dry Whey – West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey – West Mostly price used in the prior month's calculation of the Cheese hundredweight price.
- (10) For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 4b price shall be increased by the following amounts:
  - (a) For milk fat, three and two-tenth mils (\$0.0032) per pound.
  - (b) For milk solids-not-fat, one and three-tenths mils (\$0.0013) per pound.

***Proposed Changes to Article III, Section 300.0(H) of the Stabilization and Marketing Plans for Northern California (Plan 59) and Southern California (Plan 74):***

The minimum prices for components used for Class 1, Class 2, Class 3, Class 4a, and Class 4b, as set forth respectively in Paragraphs (A), (B), (C), (D), and (E) of this Section, shall be increased:

- (1) For the period July 1, 2013 to August 31, 2013 as described below:
  - (a) For Class 1 milk fat, three-tenths mils (\$0.0003) per pound.
  - (b) For Class 1 milk solids-not-fat, two and three-tenths mils (\$0.0023) per pound.
  - (c) For Class 1 milk fluid carrier, one-tenth mils (\$0.0001) per pound.
  - (d) For Class 2 and 3 milk fat and milk solids-not-fat, four and one-tenth mils (\$0.0041) per pound.
  - (e) For Class 4a and 4b milk fat, one and twenty-three hundredths cents (\$0.0123) per pound.
  - (f) For Class 4a and 4b milk fat and milk solids-not-fat, one and twenty-three hundredths cents (\$0.0123) per pound.
- (2) For the period September 1, 2013 to August 31, 2014 as described below:
  - (a) For Class 4b milk solids-not-fat, five and twenty-eight hundredths cents (\$0.0528) per pound.
- (3) Any modifications to the Class 1 fat price resulting from this Paragraph shall not be included in the calculation of the Class 1 solids-not-fat and fluid carrier prices, as set forth in Paragraph (A) of this Section.
- (4) Any modifications to the Class 4a component prices resulting from this Paragraph shall not be included in the calculation of the Class 2 and 3 component prices, as set forth, respectively, in Paragraphs (B) and (C) of this Section.
- (5) Any modifications to the Class 4b fat price resulting from this Paragraph shall not be included in the calculation of the Class 4b solids-not-fat price, as set forth in Paragraph (E) of this Section.