



December 8, 2011

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

Dear Secretary Ross:

In response to the petition by Western United Dairymen, Dairy Farmers of America, Inc., (DFA) would like to offer comments to the Department concerning the contribution of whey value to the California 4b milk price. DFA members represent approximately 20% of the state's milk production and a similar percentage of its dairy farms. We operate two processing facilities in California, producing a wide range of products, including butter, milk powders, condensed milk and Italian style cheeses. We are vitally concerned about the health of the dairy industry in California.

Over the past several years, the industry has debated how to compute the contribution value of whey to the Class 4b milk price formula. We understand that the Dairy Marketing Branch is directed by the California Food and Agricultural Code (Section 62062) as follows:

"Each stabilization and marketing plan shall contain provisions whereby the director establishes minimum prices to be paid by handlers to producers for market milk in the various classes. The director shall establish the prices by designating them in the plan, or by adopting methods or formulas in the plan whereby the prices can be determined, or any combination of the foregoing. If the director directly designates prices in the plan, the prices shall be in reasonable and sound economic relationship with the national value of manufactured milk products. If the director adopts methods or formulas in the plan for designation of prices, the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products."

One measure of how the pricing system is performing in meeting the Section 62062 requirements is to compare the contribution value of whey in the current California Department of Food and Agriculture (CDFA) formula and the current Federal Order formulas. **Table 1** outlines the comparisons for the most recent twelve months. The whey prices used in the comparisons are the monthly average National Agricultural Statistics Service's (NASS) whey price and the Agriculture Marketing Service's Dairy Market News Western Whey price (mostly

range). The Federal Order formula was used to compute the contribution value in the Class III price, and the CDFA value is taken from the bracket price system used currently to compute the 4b price. Over the past twelve months the contribution factor was defined by the fixed \$.25 contribution and the sliding scale implemented by the Department after the June 30, 2011 hearing. The monthly differences between the two systems range between \$.84 and \$2.02 per hundredweight and averages \$1.54 per hundredweight. The difference since September when the new formula was implemented has ranged from \$1.74 to \$2.02 per hundredweight.

Our view is that this difference falls short of the standard that prices be "in reasonable and sound economic relationship with the national value of manufactured milk products" as defined by the statute. The 12-month average difference of \$1.54 per hundredweight is sizable and places a California dairy farmer at a significant competitive disadvantage with regard to dairies located in Federal Order markets.

We are aware of and support the petition submitted by Western United Dairymen relative to whey valuation. We urge the Department to hold a Hearing on this important issue as soon as is practical. We are prepared to submit testimony in support of the petition. It is our position that the Dairy Marketing Branch should be responsive to the industry needs for data and information on this issue and to be aware of the need to better reflect the statute directive that California milk prices be "...in reasonable and sound economic relationship with the national value of manufactured milk products..." in this and all future deliberations.

Respectfully,



Dennis Rodenbaugh
Senior Vice President and
Chief Operating Officer
DFA Western Fluid Group

C: Sandra Schubert, Undersecretary
Candace Gates, Chief Dairy Marketing Branch

Attachment

**Table 1. Comparison of Whey Contribution to the Classified Milk Price in
in Federal Orders and California**

| Month | Year | NASS Whey | Western Whey | Contribution Federal Order Class III Price | Contribution CDFA Class 4b Price | Difference |
|---------|------|--------------|-----------------|--|--|------------|
| Dec | 2010 | \$ 0.3789 | \$ 0.3928 | \$1.09 | \$0.25 | \$0.84 |
| Jan | 2011 | \$ 0.3935 | \$ 0.4063 | \$1.18 | \$0.25 | \$0.93 |
| Feb | 2011 | \$ 0.4234 | \$ 0.4425 | \$1.36 | \$0.25 | \$1.11 |
| Mar | 2011 | \$ 0.4578 | \$ 0.4831 | \$1.57 | \$0.25 | \$1.32 |
| Apr | 2011 | \$ 0.4808 | \$ 0.4859 | \$1.71 | \$0.25 | \$1.46 |
| May | 2011 | \$ 0.4929 | \$ 0.5031 | \$1.79 | \$0.25 | \$1.54 |
| Jun | 2011 | \$ 0.5233 | \$ 0.5355 | \$1.97 | \$0.25 | \$1.72 |
| Jul | 2011 | \$ 0.5494 | \$ 0.5666 | \$2.13 | \$0.25 | \$1.88 |
| Aug | 2011 | \$ 0.5691 | \$ 0.5888 | \$2.25 | \$0.25 | \$2.00 |
| Sep | 2011 | \$ 0.5926 | \$ 0.6078 | \$2.39 | \$0.65 | \$1.74 |
| Oct | 2011 | \$ 0.6152 | \$ 0.6300 | \$2.53 | \$0.65 | \$1.88 |
| Nov | 2011 | \$ 0.6380 | \$ 0.6403 | \$2.67 | \$0.65 | \$2.02 |
| Average | | \$ 0.5096 | \$ 0.5236 | \$1.89 | \$0.35 | \$1.54 |