



MILK PRODUCERS COUNCIL

“Serving the Dairy Industry for More Than 60 Years”

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December 6, 2011

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

Re: Support for Class 4b Hearing

Dear Secretary Ross:

Milk Producers Council (MPC) echoes the request made by Western United Dairymen in their December 2, 2011 letter to CDFA requesting a hearing to consider changes to the Class 4b formula, specifically with regard to the whey solids factor.

While we recognize that this particular issue was recently considered by CDFA at the June 30/July 1 hearing, it has become painfully clear in the three months since those changes were implemented that the current structure of our Class 4b minimum price formula remains severely flawed.

Specifically, the sliding scale to determine a whey solids factor that is currently in our Class 4b formula has been unable to result in a Class 4b price that conforms to Section 62062 of the California Food and Agricultural Code:

*“If the [Secretary of Agriculture] adopts methods or formulas...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.**” (emphasis added)*

Looking only at the three months since the new Class 4b formula was implemented (September – November), the announced Class 4b minimum price has averaged \$2.29 per hundredweight below the Federal Milk Marketing Order (FMMO) Class III minimum price. **Of that huge gap, \$1.79 per hundredweight is a direct result of the difference in how CDFA and the FMMOs determine a whey solids factor.** Given recent pool utilization data, \$1.79 per hundredweight on the Class 4b minimum price represents an estimated **\$80 million dollars over those three months alone!** This has caused major market disruptions around the country, as our cheese manufacturers are buying their milk supply at a severe discount to their competitors in FMMO areas.

Further, this \$80 million discount is on the backs of financially-strapped dairy families that are still reeling from the 2009 devastation and facing some of the highest feed costs in the country. Section 62062 goes beyond the excerpt above to state that:

*“In establishing the prices, the director shall take into consideration any relevant economic factors, including, but not limited to...**The reasonableness and economic soundness of market milk prices for all classes, giving consideration to the combined income from those class prices, in relation to the cost of producing and marketing market milk for all purposes, including manufacturing purposes. In determining the costs, the director shall consider the cost of management and a reasonable return on necessary capital investment.**” (emphasis added)*

Simply put, our current Class 4b formula fails to result in a price that is in a “reasonable and sound economic relationship” with out-of-state competition and has failed to maintain a price that results in on-farm income that exceeds “the cost of producing and marketing market milk,” including “the cost of management and a reasonable return on necessary capital investment.” On behalf of the dairy families we represent that can no longer afford to sell heavily-discounted milk to our State’s cheese manufacturers, **we strongly urge you to call for a hearing on the Class 4b minimum price formula.**

Sincerely,



Robert Vandenheuvel
General Manager

Cc: Sandra Schubert, Undersecretary, CDFA
Kevin Masuhara, Director, CDFA Marketing Division
Candace Gates, Chief, CDFA Dairy Marketing