June 8, 2015

Hyrum Eastman
California Department of Food and Agriculture
2800 Gateway Oaks
Sacramento, CA 95855

RE: Post Hearing Brief for June 3, 2015 Consolidated Public Hearing to Consider Amendments to the Stabilization and Marketing Plans for Market Milk for the Northern and Southern California Marketing Areas

Dear Mr. Eastman and Members of the Hearing Panel:

The California Dairy Campaign appreciates the opportunity to submit a post hearing brief following the June 3 4b hearing.

A question was asked about the statement in our testimony, "Demand continues to grow both domestically and overseas for whey products." A June 3 article from the U.S. Dairy Export Council (USDEC) written by Alan Levitt titled, "April exports rise for third straight month" confirms that demand for whey products continues to grow internationally. The article stated that U.S. exports reached record highs in April in a number of categories including whey protein isolate (+150%). Exports of WPI to China were up 17-fold from last year. The article later states, "WPC exports in April were 22,308 tons, the most since March 2014 (daily average)." The article can be found https://www.usdec.org/research-and-data/market-data/us-export-data. According to USDEC, dry whey exports and whey protein exports have increased each year since 2010. In 2014 the value of dry whey exports totaled $1,266,091,000 up more than 75 percent since 2010. Whey protein concentrate exports increased in value from $249,250,000 in 2010 to $422,105,000 in 2014, amounting to a nearly 70 percent increase over that time. The value of whey in the marketplace continues to grow and dairy producers should be paid a 4b milk price that incorporates that value. Export data can be found on the USDEC web site at https://www.usdec.org/research-and-data/market-data/us-export-data/historical-data.

Another issue discussed after our testimony was presented was the comparison of "grind up" dairies to "grind up" dairies in the Southern California in years past. The "grind up" dairies today are different than the closures back then because they are permanent closures leading to the decline in milk production in California. When dairies closed in Southern California a decade ago the dairy owners typically used the proceeds of those sales to purchase and build dairies in other parts of the state. Back then milk production continued to increase after these closures because most dairies that sold out in the Inland Empire moved to purchase or build dairies in Fresno, Kern, Kings and Tulare counties. In contrast today, the dairy owners that close their operations no longer continue in the dairy business. They exit the dairy industry entirely or move to other states. Milk production in California is in decline as a result of the closures that are occurring today threatening the future of the dairy industry in our state.

As we testified during the hearing, dairy producers are under greater economic pressure than ever before making it more important for California's minimum pricing system to be in reasonable relationship with other states. The lack of equity in dairy producer pricing, the ongoing statewide drought and the profitability of other crops is causing dairies to go out of business permanently and the sale of cows out of state. Dairy farmers are not able to pass on increases in their production costs, while dairy processors have that ability. Wisconsin dairy producers receive at least the Class III price and cheese processing facilities in that state continue to be profitable. The growth in Wisconsin milk production from 2008 to 2014 totaled 13% demonstrating the profitability of milk production and processing in that state. Even those milk handlers in states such as Wisconsin that depool their milk still pay the Class III price because it is the benchmark price to attract milk. Even in a deregulated area like Idaho the Class III price is a reference price used by milk processors to determine prices paid to dairy producers there. Producer prices in Idaho and other states would be higher if California were to stop discounting its 4b milk by $1.80 per cwt on average.

The class 4b is already a "market clearing price" given that it is based on the cheddar cheese price, one of the least profitable cheeses in the market today. Lower valued cheddar cheese is used in the 4b price despite the fact that 59 percent of 4b milk is used to make higher valued mozzarella cheese. Given that the cheddar cheese price continues to be utilized to determine the 4b price, it is critical that dairy farmers are paid an equitable price in the rest of the formula. A $1.80 difference between the 4b and Class III is far from equitable.

We strongly urge CDFA to adopt the proposal we have put forward along with Milk Producers Council and Western United Dairymen because it will ensure that the 4b price is in reasonable and sound relationship with prices paid in other states.

We greatly appreciate your attention in this regard.

Sincerely,

Lynne McBride

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Executive Director

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