



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

Dear Secretary Ross:

On behalf of the member companies of Dairy Institute, I am writing to request that the Department of Food and Agriculture deny the petition filed by Western United Dairymen and California Dairy Campaign proposing amendments, effective April 1, 2018 until March 31, 2019, to the Class 1, 2, and 3 pricing formulas resulting in \$0.60/cwt increases to each, along with a \$0.40/cwt increase in the 4b formula and a \$0.10/cwt increase in the 4a formula.

While we understand the challenges of the current price environment in which producers are operating, regulated price adjustments must reflect both farm and manufacturing plant realities. These amendments would result in unwise increases in regulated price levels at a time when product prices are weak, margins are compressed for manufacturers and fluid milk sales are declining. Increases in the regulated price levels will compound these difficulties and improve the market position of our out-of-state competitors, while diminishing ours.

Producers are already receiving enhanced regulated prices for their milk because the pricing formulas' manufacturing cost allowances are well below the actual cost of manufacturing. Class 4a butter and nonfat dry milk "make" allowances have not been adjusted in 7 years, while those for cheese in the Class 4b formula have not been adjusted in 10 years. In addition, the disproportionate price increase proposed for the 4b formula ignores the reality of the current whey values that are generating losses for some cheese plants and severely compressed margins for others.

Despite these weak product prices, California processors now compete for milk in a declining supply, as acknowledged by the petitioners. The result of a short milk supply is that prices paid by processors exceed regulated minimums, and the magnitude of these over-order premiums has been increasing, a testimony that processors have been attentive to the changing market conditions. In many other states, processors with whom we compete do not face this short-supply situation.

We note that producers have successfully sought emergency price relief on several occasions over the past 10 years. While CDFA has made speedy adjustments to meet changing conditions, this has never been the reality in federal orders. Hearings to adjust FMMO formulas are rare and complicated proceedings. The Federal Milk Marketing Orders allow the market to set prices paid to farmers for most milk marketed in their jurisdiction. It is therefore ironic that the producers who are petitioning CDFA

for “price relief” are the same ones that have been vocally advocating for a FMMO. If California were to join the FMMO, pricing hearings would likely become as rare in California as they have been in the rest of the country.

Dairy Institute does recognize the value of a balanced state milk marketing order that can be timely in its response to changes in market and farm conditions. But today, processors do not have the margin to absorb regulated price increases and we urge that the petition be denied.

As we noted earlier, the integrity of our current end-product pricing formulas in Class 4a and Class 4b has been challenged by the growing gap between formula manufacturing allowances and actual manufacturing costs. Should you ultimately decide to convene a hearing, we respectfully request that the call of the hearing be expanded to address make allowances in the Class 4a and Class 4b formulas.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rachel Kaldor", with a large, stylized flourish at the end.

Rachel Kaldor  
Executive Director