



June 24, 2013

Dear Dairy Industry Stakeholders:

Today, I have ordered modest temporary price relief for milk producers, effective July 1 through the end of the year. This adjustment is across all classes to maximize pool returns to producers. While the testimony on the hearing record failed to provide economic data to justify the industry's positions, the uncertainty of the 2013 corn crop, and questions about the stability of the market recovery indicate this adjustment is appropriate. I've taken this action despite the fact that I believe, and have stated, the Department cannot address ongoing difficulties within the dairy industry through increases in the minimum price.

California dairies and processors must operate within national and international markets that require the manufacture of milk products to be competitive with those produced elsewhere in terms of variety, price and quality. Our system of regulated milk pricing is an antiquated one that impairs the ability of the dairy industry to rise to this challenge.

When California's pricing system was established nearly half a century ago, fluid milk utilization comprised 60 percent of the pool. Today, it is less than 14 percent. Class 4 products – butter, dry milk, powders and cheese – now represent about 80% of all milk produced in California. A half-century ago, California was focused primarily on producing milk only for our state's consumers. Today, California exports dairy products across the country and around the world, and we are poised for significant growth.

The current system is unsustainable because the Department lacks transparent market information to make pricing decisions. Class 4 is a market clearing price, meaning it's based on the lowest value commodities instead of higher value products. For example, the Class 4b price is determined by reference to the cost of manufacturing cheddar cheese, even though it accounts for a small amount of cheese manufactured in the state. Similarly, the Department relies upon a dry whey factor to calculate the 4b price in the absence of any reliable economic data that can be used to calculate the value of dry whey products in relation to the market. As a result, cheese plants that dispose of dry whey instead of transforming it into marketable dry whey products pay a price for milk that falsely assumes that they profit from the manufacture of these products.



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We must work together to create a new system to allow producers to improve margins by being responsive to market signals, to provide incentives for the construction of additional processing capacity, and to encourage the production and marketing of new innovative products that add value to milk. The industry is being compelled to engage these issues in the California Dairy Future Task Force, the Legislature, and, potentially, the Federal Milk Marketing Order. The Department stands ready to participate in any forum that presents an opportunity to ensure the long-term stability of the California dairy industry, but I strongly believe that the Task Force is the best process for bringing producers and processors together to achieve this goal.

By participating in the Task Force, industry leaders have taken tentative steps toward confronting these difficult issues. If we work together, we can successfully overcome them. The future demands the changes we all agree must be made to our current pricing system. A 21st century model that more equitably shares risk should be flexible enough to embrace new products and position our industry to compete in the modern global marketplace.

Yours truly,

A handwritten signature in blue ink that reads "Karen Ross". The signature is written in a cursive, flowing style.

Karen Ross

Secretary