

October 22, 2013

Dear Dairy Industry Stakeholders:

Today I am extending the current temporary price relief across all classes of milk through June 30, 2014 – an overall price increase of 12.5 cents per hundredweight of milk each month. I believe this will provide a consistent level of revenue to producers to ensure a stable milk supply.

While there are positive signs in the marketplace, the fragility of the country's economic recovery and the stability of the dairy sector compel me to make this extension. However, I am convinced that continued adjustments to the minimum price are inadequate to address the ongoing difficulties in the dairy industry. Our antiquated state pricing system demands structural reform.

I understand there will be disappointment with this decision in light of the publicity surrounding the perceived agreement between producers and processors during the legislative session. However, the Department was not jointly petitioned by producers and processors – only some producers – and when questioned by the Hearing Panel, processors responded that there was no agreement.

Despite the Department specifically requesting economic data and legal explanation in the hearing, testimony failed to provide justification for the petitioners' position that price relief be based solely on the whey factor and the 4b formula. In fact, the testimony supports the Department's position that the manufactured milk pricing formulas need to be changed to equitably return value to producers and recognize that only a few processors are realizing the full value of whey.

California's 1960's system of regulated milk pricing is outdated and impairs the ability of the dairy industry to meet 21st century challenges and opportunities in national and international markets. These markets have changed dramatically, as have product distribution, costs, and feed and production patterns.

Since 2011, the Department has held six hearings and denied five hearing requests. In the last ten years, it has held a total of eighteen hearings and denied a total of twelve. Recently, legislative battles have begun at the state and federal levels, creating more tension and entrenchment within the industry. In the midst of all this, no progress has been made to update California's pricing system -- something that must be done.



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California's world-renowned dairy industry has tremendous potential to take advantage of the new marketplace to create growth and prosperity for our dairy families and processors. In order to achieve this growth, we must work together to create a new system built on the four most critical pillars of the California Dairy Future Task Force: a 21st century pricing system that allows producers to be responsive to market signals; comprehensive risk management tools to more equitably share risk between producers and processors; the right processing capacity for domestic and international markets; and an in-depth examination of California's quota in the context of a 21st century pricing system.

The cornerstone of any 21st century pricing system must begin with changes to Classes 4a and 4b, as they represent approximately eighty percent of the milk processed in California. A work group of industry technical experts is developing potential alternative pricing scenarios that could replace the formulas currently used. The Department has contracted with Daniel Sumner, Ph.D., a University of California at Davis Professor of Agricultural & Resource Economics and a former USDA Chief Economist, to analyze the effects of different pricing scenarios on California's dairy industry.

Additionally, because statutory changes will be required to make the needed reforms, I have directed staff to develop comprehensive pricing proposals – in cooperation with stakeholders, industry experts and the Legislature – by December 15, 2013. We can and must work together to implement changes to the current pricing system.

Yours truly,



Karen Ross
Secretary