

December 3, 2012

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

RE: Resubmission of Petition for Class 4b Hearing

Dear Secretary Ross:

On behalf of its producer-members, California Dairies, Inc. (CDI), Dairy Farmers of America – Western Area Council (DFA) and Land O'Lakes, Inc. (LOL) respectfully submit this petition for a public hearing to be called on an emergency basis to consider a change to the Class 4b pricing formula. Specifically, we are requesting modifications to the sliding scale that translates market prices for dry whey into higher monetary contributions to the California Class 4b price. This change to the Class 4b milk pricing formula would remain in place for six-months to give our members the milk price relief they desperately need. Economic relief is needed, but in order for the Secretary to act on behalf of suffering dairymen in California, a public hearing must be called. The Secretary of Agriculture is authorized to call a hearing to amend the Stabilization and Marketing Plans for Market Milk for the Northern and Southern California Marketing Areas upon receipt of a petition from any interested party (3 CCR 2080.2).

As everyone associated with the California dairy industry is painfully aware, California dairy families have been and continue to be under a great deal of financial stress. Some of the financial pressure being experienced in California can be attributed to the drought in the most significant feed growing regions of the U.S., leading to escalated feed costs. The Department's own data shows that total feed costs are up by 55% since 2010. The costs of milk cow hay and of milk cow grain mix, principal ingredients for California dairy farms, have soared during that same time period.

The major factor in the question of California dairy farm survivability is achieving a sustainable margin. Feed price is a component of margin, making up nearly 70% of the cost of producing milk. The other main component to margin is milk price, and at issue in California is the method by which whey is considered as part of the milk price. The question of how to value whey appropriately has been a galvanizing force among California dairy farmers, leading to unprecedented cooperation and agreement among the producer cooperatives and trade associations. As we have argued in the recent past, the sliding scale for the contribution of the value of whey to the Class 4b formula does not come close to matching the value placed on whey in federal milk marketing orders, especially at current market prices for dry whey. Quite simply, the additional value of dry whey that is being captured by the federal order class III pricing formula is not, for the most part, being captured by the California Class 4b pricing formula. This phenomenon is a function of pricing formula construct and can be remedied easily by adopting the suggested changes included in this petition.

We are proposing that the sliding scale for whey values as found in Article III, Section 300.0 of the Stabilization and Marketing Plans for Northern California (Plan 56) and Southern California (Plan 71) be altered to reflect an appropriate value for whey in California. Specifically, the attached whey value table was constructed to provide values to be used in the Class 4b formula that represent the full value of whey as contained in the federal order class III pricing formula. In other words, our members want the same value for whey that their producer counterparts outside of California receive for whey.

In light of the pressures being faced by dairymen right now because of high feed prices and low margins, we ask for an emergency hearing so that the proposal can be implemented immediately and remain in place for a six-month period. We are mindful of the efforts being made to forge a foundation for a strong and viable dairy industry in the future, and we understand our obligation to be engaged with the rest of the dairy industry. However, our members need to survive in the short-term first. Our proposal provides a reasonable method to bridge the financial gap from where California milk prices are today and where they need to be to prevent further attrition on the producer side of the industry.

The attached extracts from the current Stabilization and Marketing Plans for Northern California and Southern California (the sections for the Class 4b pricing formula are identical for both Plans) reflect our proposed amendments.

Thank you for your consideration of our petition.

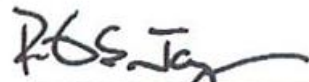
Sincerely,



Andrei Mikhalevsky, CEO  
California Dairies, Inc.



Dennis Rodenbaugh  
Senior Vice President and  
Chief Operating Officer  
Dairy Farmers of America, Inc.



Pete Janzen  
General Counsel  
Chief Administrative Officer  
Land O'Lakes, Inc.

*Proposed Changes to Article III, Section 300.0 of the Stabilization and Marketing Plans for Northern California (Plan 56) and Southern California (Plan 71):*

The minimum prices to be paid for components used for Class 4b shall be computed as follows, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

- (1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:
  - (a) The price per hundredweight computed by the formula using the Cheddar cheese price, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of nineteen and eighty-eight hundredths cents (\$0.1988), all multiplied by a yield factor of ten and two-tenths (10.2).
  - (b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of sixteen and thirty-five hundredths cents (\$0.1635), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
  - (c) The price per hundredweight for the whey factor value, corresponding to the monthly average dry whey price, based on the following schedule:

<u>Monthly Average Dry Whey Price (\$/lb.)</u>	<u>Whey Value (\$/cwt.)</u>	<u>Monthly Average Dry Whey Price (\$/lb.)</u>	<u>Whey Value (\$/cwt.)</u>
less than \$0.20	\$0.0000	\$0.56 to \$0.5699	\$2.1455
\$0.20 to \$0.2099	\$0.0343	\$0.57 to \$0.5799	\$2.2041
\$0.21 to \$0.2199	\$0.0929	\$0.58 to \$0.5899	\$2.2627
\$0.22 to \$0.2299	\$0.1516	\$0.59 to \$0.5999	\$2.3214
\$0.23 to \$0.2399	\$0.2102	\$0.60 to \$0.6099	\$2.3800
\$0.24 to \$0.2499	\$0.2689	\$0.61 to \$0.6199	\$2.4387
\$0.25 to \$0.2599	\$0.3275	\$0.62 to \$0.6299	\$2.4973
\$0.26 to \$0.2699	\$0.3862	\$0.63 to \$0.6399	\$2.5560
\$0.27 to \$0.2799	\$0.4448	\$0.64 to \$0.6499	\$2.6146
\$0.28 to \$0.2899	\$0.5035	\$0.65 to \$0.6599	\$2.6732
\$0.29 to \$0.2999	\$0.5621	\$0.66 to \$0.6699	\$2.7319
\$0.30 to \$0.3099	\$0.6207	\$0.67 to \$0.6799	\$2.7905
\$0.31 to \$0.3199	\$0.6794	\$0.68 to \$0.6899	\$2.8492
\$0.32 to \$0.3299	\$0.7380	\$0.69 to \$0.6999	\$2.9078
\$0.33 to \$0.3399	\$0.7967	\$0.70 to \$0.7099	\$2.9665
\$0.34 to \$0.3499	\$0.8553	\$0.71 to \$0.7199	\$3.0251
\$0.35 to \$0.3599	\$0.9140	\$0.72 to \$0.7299	\$3.0837
\$0.36 to \$0.3699	\$0.9726	\$0.73 to \$0.7399	\$3.1424
\$0.37 to \$0.3799	\$1.0312	\$0.74 to \$0.7499	\$3.2010
\$0.38 to \$0.3899	\$1.0899	\$0.75 to \$0.7599	\$3.2597
\$0.39 to \$0.3999	\$1.1485	\$0.76 to \$0.7699	\$3.3183

\$0.40 to \$0.4099	\$1.2072	\$0.77 to \$0.7799	\$3.3770
\$0.41 to \$0.4199	\$1.2658	\$0.78 to \$0.7899	\$3.4356
\$0.42 to \$0.4299	\$1.3245	\$0.79 to \$0.7999	\$3.4942
\$0.43 to \$0.4399	\$1.3831	\$0.80 to \$0.8099	\$3.5529
\$0.44 to \$0.4499	\$1.4417	\$0.81 to \$0.8199	\$3.6115
\$0.45 to \$0.4599	\$1.5004	\$0.82 to \$0.8299	\$3.6702
\$0.46 to \$0.4699	\$1.5590	\$0.83 to \$0.8399	\$3.7288
\$0.47 to \$0.4799	\$1.6177	\$0.84 to \$0.8499	\$3.7875
\$0.48 to \$0.4899	\$1.6763	\$0.85 to \$0.8599	\$3.8461
\$0.49 to \$0.4999	\$1.7350	\$0.86 to \$0.8699	\$3.9047
\$0.50 to \$0.5099	\$1.7936	\$0.87 to \$0.8799	\$3.9634
\$0.51 to \$0.5199	\$1.8522	\$0.88 to \$0.8899	\$4.0220
\$0.52 to \$0.5299	\$1.9109	\$0.89 to \$0.8999	\$4.0807
\$0.53 to \$0.5399	\$1.9695	\$0.90 to \$0.9099	\$4.1393
\$0.54 to \$0.5499	\$2.0282	\$0.91 to \$0.9199	\$4.1980
\$0.55 to \$0.5599	\$2.0868	\$0.92 and higher	\$4.2566

- (2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
- (3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).
- (4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (6) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey – West Mostly prices as published in Dairy Market News between the period beginning the 26<sup>th</sup> day of the previous month and concluding the 25<sup>th</sup> day of the current month.
- (7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price, pursuant to

Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.

- (8) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.
- (9) In the event that the Dry Whey – West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey – West Mostly price used in the prior month's calculation of the Cheese hundredweight price.
- (10) For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 4b price shall be increased by the following amounts:
  - (a) For milk fat, three and two-tenth mils (\$0.0032) per pound.
  - (b) For milk solids-not-fat, one and three-tenths mils (\$0.0013) per pound.