

Milk Producers Council

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TO: DIRECTORS & MEMBERS

FROM: Rob VandenHeuvel

CALLING ALL MPC MEMBERS!!!

Your Action Is Needed! Millions Of Dollars At Stake!

By Rob VandenHeuvel, General Manager

As MPC reported in our newsletter last week, the California Department of Food and Agriculture (CDFA) announced their final decision regarding the recent hearing on modifications to California's Class 4a (butter and powder) and 4b (cheese) formulas. If you haven't heard by now, **their decision was to virtually remove the whey value from the 4b formula, as well as increase several make allowance and transportation adjustments for both the 4a and 4b formulas.**

The story of how this hearing came to be has been well-documented in our newsletter and other news accounts. If you missed it, you can read my full report of the hearing in the October 12th edition of MPC's "Friday Report." (http://www.milkproducerscouncil.org/friday_updates.htm)

But to catch everyone up: Several small and medium-sized cheese makers asked CDFA to hold an emergency hearing to consider removing the "whey value" from the class 4b formula. Their claim was that the financial health of their organizations was in serious jeopardy, due solely to the higher milk prices they were forced to pay because of a relatively high value of dry whey. Since the petitioners were small and mid-sized processors, their claim was that they don't have the volume or resources to adequately process the whey stream coming off their cheese-making operations, and are therefore unable to recover the "whey value" that dairy producers are paid for their milk that is processed into cheese.

Before I move on, let me briefly explain the "whey calculations" that go into the class 4b formula: A base "dry whey" value is derived from a regular survey conducted by the U.S. Department of Agriculture. That figure is then adjusted by a make allowance (which in California is *significantly* higher than the Federal Orders, but that's another discussion that I won't go into right now) and multiplied by the expected "yield" (the formula assumes that 5.8 pounds of dry whey can be derived from 100 pounds of standard raw milk made into cheese) to come up with the "whey factor" in the formula.

The make allowance for dry whey was set last year at \$0.267 per pound, so whenever the dry whey value in USDA's survey is above \$0.267 per pound, the whey calculation increases the value of milk used for cheese (which is increased revenue for the producers and increased cost for the processor). Whenever the USDA-announced dry whey value is below \$0.267 per pound, the whey calculation decreases the value of milk used for cheese, reducing the value of the raw milk for producers and reducing the cost for processors.

So when dry whey in the U.S. rose to more than \$0.80 per pound in May of this year, that calculation was adding more than \$3 per cwt. to the class 4b formula (and since about 45% of California milk is turned into cheese, that's more than \$1.35 per cwt. added to the producers' milk checks!). And at the current dry whey level of \$0.44 per pound, the whey calculation is responsible for about \$1.00 per cwt. of the 4b formula (or about \$0.45 per cwt. on the producers' milk checks).

Fast forward a couple weeks: CDFA announced that they would be holding a hearing to consider not only the whey calculations, but the *entire* class 4a and 4b formulas (although no one actually petitioned for that).

In an effort to directly address the small cheese makers' concerns, Milk Producers Council joined Western United Dairymen and the Alliance of Western Milk Producers in presenting a compromise proposal that would exempt most of these cheese makers from ANY payment for a whey value. This proposal was supported by nearly every producer group in the state, and it represented the first real attempt by either side to find a middle ground since whey was added to the class 4b formula in 2003.

The proposal was simple: EVERY cheese manufacturer would be exempt from paying a whey value on the first 3 million pounds of raw milk they process each month. This would protect the small cheese manufacturers from a potential rise in whey values like we saw earlier this year, but still ensure that producers are appropriately compensated for the milk they sell to cheese makers.

After two days of hearings and more than a month of deliberation, CDFA announced last week that they had decided to completely remove the whey calculation from the class 4b formula. In its place, they are including a flat whey value in the formula of \$0.25 per cwt. (compare this to the current \$1.00 per cwt. or the \$3.00+ per cwt. in May/June!). The CDFA hearing panel actually recommended a fixed whey value of \$0.10 per cwt., but CDFA Secretary A.G. Kawamura opted to make that \$0.25 per cwt. in his final decision. In addition, CDFA made modest increases to the make allowances for nonfat dry milk and cheddar cheese, and increased the transportation adjustment for butter.

These "tweaks" to the formula will reduce the price paid by cheese manufacturers (and received by dairy farmers) by millions of dollars per month! By CDFA's own estimates, if this new formula were in place over the past year, California dairymen would have received \$379 million less for their milk! Last week, John Kaczor estimated in MPC's newsletter that the change would reduce a 1,000-cow dairy's milk check by \$10,000 a month at the current dry whey values. The CDFA chart can be found at the end of this news alert. **Just a health warning though...the chart will likely cause a spike in your blood pressure. They're that outrageous!**

This is obviously a devastating hit on California dairy families at a time when producers are still recovering from a horrific 2006 and facing dramatically increased production costs, not to mention environmental compliance costs.

IT'S TIME FOR PRODUCERS TO STAND UNIFIED!

Yesterday, our fellow California producer organization, Western United Dairymen, filed a "request for reconsideration" with CDFA. Their request outlines the evidence that CDFA acted inappropriately in arriving at their final decision, and requests that they reconsider their decision. **This is a time for all producers to stand united and say in a loud voice that "We won't stand for this!"**

I'm asking that each of you to write a letter **today** to CDFA Secretary A.G. Kawamura and Governor Arnold Schwarzenegger expressing your strong objection to this assault on California dairy families. These California leaders need to hear directly from their dairy constituents! They need to hear that dairy families demand to be fairly paid for the milk they sell, and producers will not sit idly by as CDFA oversees a huge transfer of money from dairy families' pockets into processors' coffers. Attached is a sample you can use as you write your letter.

The letters should be sent to:
A.G. Kawamura, Secretary
California Dept of Food and Agriculture
1220 N Street
Sacramento, CA 95814

And please send a copy of the letter to:
cc: **George Gomes, Undersecretary**
cc: **Governor Arnold Schwarzenegger**
State Capitol Building
Sacramento, CA 95814

November 29, 2007

A.G. Kawamura, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Dear Secretary Kawamura,

My name is John Smith. My family and I own and operate a 500-cow dairy farm in Anytown, California. I am writing you today to express my extreme disappointment with the recent CDFA decision to remove the whey calculation from the class 4b formula and replace it with a fixed value of \$0.25 per hundredweight.

This change will cost my family thousands of dollars per month at a time when virtually every other expense is skyrocketing. Your staff's own figures reveal that if this new formula had been in place over the past year, my fellow California dairy farmers and I would have received \$379 million less for the milk we produced.

As California producers, we are already at a price disadvantage with our colleagues in neighboring states. This decision will put us even further behind. This isn't disputed – your hearing panel even stated this in their report from the recent hearing. As the top official in charge of regulating the California dairy industry, is it truly your intention to put me at an even larger disadvantage with my colleagues in neighboring states?

I understand that there are specific issues that must be dealt with, primarily with regard to the smallest cheese makers who are unable to process their whey stream coming from their cheese operation. In an effort to address this narrow issue, my fellow dairy producers were united in supporting a proposal at the October 10th hearing that would directly address this issue and ensure that the small cheese makers would be protected from paying a value for whey products they cannot manufacture. The proposal would provide 100 percent relief for most of California's cheese makers, and even some relief to the others who are processing their whey stream and selling it in the marketplace. This proposal was the largest concession offered by either side since the whey calculation was included in the class 4b formula in 2003. Why was that proposal not given fair consideration?

At a time when my family and I are still reeling from the devastating year we faced in 2006, and with production costs and environmental compliance costs rising to all-time record levels, this decision sends a message to the 1,800 California dairy families that our well-being doesn't matter. The message coming from your latest decision is clear: my family and I aren't entitled to a fair price for the milk we produce.

I urge you to please reconsider this decision.

Sincerely,

John Smith

Cc: Governor Arnold Schwarzenegger
CDFA Undersecretary George Gomes



**Price Formula Changes on California Class and Pool Prices
resulting from October 10 and 11, 2007 Hearing**

Using historic commodity prices, estimates assume that the new formulas
had been in effect from September 2002 through October 2007

Estimated Impact of New Formula (New Formula less Previous Formula)

	Class 2, 3 & 4a (\$/cwt)	Class 4b (\$/cwt)	Pool Price (\$/cwt)	Pool Revenue (millions)
Sep-02	-\$0.14	\$0.67	\$0.25	\$7
Oct-02	-\$0.14	\$0.50	\$0.17	\$5
Nov-02	-\$0.14	\$0.37	\$0.12	\$3
Dec-02	-\$0.14	\$0.32	\$0.09	\$3
Jan-03	-\$0.14	\$0.46	\$0.15	\$4
Feb-03	-\$0.14	\$0.64	\$0.23	\$6
Mar-03	-\$0.14	\$0.70	\$0.25	\$8
Apr-03	-\$0.14	\$0.73	\$0.27	\$8
May-03	-\$0.14	\$0.79	\$0.31	\$9
Jun-03	-\$0.14	\$0.79	\$0.32	\$10
Jul-03	-\$0.14	\$0.73	\$0.31	\$9
Aug-03	-\$0.14	\$0.61	\$0.24	\$7
Average Sept 02 - Aug 03	-\$0.14	\$0.61	\$0.23	\$7
Sep-03	-\$0.14	\$0.54	\$0.20	\$6
Oct-03	-\$0.14	\$0.47	\$0.17	\$5
Nov-03	-\$0.14	\$0.45	\$0.15	\$4
Dec-03	-\$0.14	\$0.51	\$0.18	\$5
Jan-04	-\$0.14	\$0.59	\$0.22	\$7
Feb-04	-\$0.14	\$0.64	\$0.23	\$7
Mar-04	-\$0.14	\$0.62	\$0.23	\$7
Apr-04	-\$0.14	\$0.31	\$0.08	\$2
May-04	-\$0.14	\$0.06	-\$0.03	-\$1
Jun-04	-\$0.14	\$0.03	-\$0.04	-\$1
Jul-04	-\$0.14	\$0.22	\$0.05	\$1
Aug-04	-\$0.14	\$0.32	\$0.09	\$3
Average Sept 03 - Aug 04	-\$0.14	\$0.40	\$0.13	\$4
Sep-04	-\$0.14	\$0.33	\$0.11	\$3
Oct-04	-\$0.14	\$0.27	\$0.07	\$2
Nov-04	-\$0.14	\$0.19	\$0.04	\$1
Dec-04	-\$0.14	\$0.12	\$0.01	\$0

	Class 2, 3 & 4a (\$/cwt)	Class 4b (\$/cwt)	Pool Price (\$/cwt)	Pool Revenue (millions)
Jan-05	-\$0.14	\$0.09	-\$0.01	\$0
Feb-05	-\$0.14	\$0.07	-\$0.02	-\$1
Mar-05	-\$0.14	\$0.02	-\$0.04	-\$1
Apr-05	-\$0.14	-\$0.02	-\$0.06	-\$2
May-05	-\$0.14	-\$0.07	-\$0.09	-\$3
Jun-05	-\$0.14	-\$0.12	-\$0.11	-\$3
Jul-05	-\$0.14	-\$0.18	-\$0.14	-\$4
Aug-05	-\$0.14	-\$0.21	-\$0.15	-\$5
Average Sept 04 - Aug 05	-\$0.14	\$0.04	-\$0.03	-\$1
Sep-05	-\$0.14	-\$0.25	-\$0.17	-\$5
Oct-05	-\$0.14	-\$0.27	-\$0.19	-\$6
Nov-05	-\$0.14	-\$0.31	-\$0.21	-\$6
Dec-05	-\$0.14	-\$0.37	-\$0.24	-\$7
Jan-06	-\$0.14	-\$0.42	-\$0.26	-\$8
Feb-06	-\$0.14	-\$0.44	-\$0.27	-\$8
Mar-06	-\$0.14	-\$0.37	-\$0.23	-\$8
Apr-06	-\$0.14	-\$0.22	-\$0.16	-\$5
May-06	-\$0.14	-\$0.17	-\$0.14	-\$4
Jun-06	-\$0.14	-\$0.10	-\$0.10	-\$3
Jul-06	-\$0.14	-\$0.09	-\$0.10	-\$3
Aug-06	-\$0.14	-\$0.16	-\$0.13	-\$4
Average Sept 05 - Aug 06	-\$0.14	-\$0.26	-\$0.18	-\$6
Sep-06	-\$0.14	-\$0.27	-\$0.19	-\$6
Oct-06	-\$0.14	-\$0.46	-\$0.28	-\$9
Nov-06	-\$0.14	-\$0.69	-\$0.39	-\$12
Dec-06	-\$0.14	-\$0.91	-\$0.51	-\$16
Jan-07	-\$0.14	-\$1.17	-\$0.64	-\$21
Feb-07	-\$0.14	-\$1.69	-\$0.90	-\$27
Mar-07	-\$0.14	-\$2.27	-\$1.20	-\$41
Apr-07	-\$0.14	-\$2.66	-\$1.37	-\$45
May-07	-\$0.14	-\$3.04	-\$1.58	-\$53
Jun-07	-\$0.14	-\$3.15	-\$1.64	-\$52
Jul-07	-\$0.14	-\$2.91	-\$1.49	-\$49
Aug-07	-\$0.14	-\$1.97	-\$1.02	-\$34
Average Sept 06 - Aug 07	-\$0.14	-\$1.77	-\$0.93	-\$30
Sep-07	-\$0.14	-\$0.96	-\$0.53	-\$16
Oct-07	-\$0.14	-\$0.74	-\$0.40	-\$13