

LAST WEEK'S CDFA HEARING ON THE CLASS 4A/4B MINIMUM PRICE FORMULAS: (By Rob Vandenneuvel) Last week, the California Department of Food and Agriculture (CDFA) held a hearing to consider amending the minimum price formulas for milk sold to Class 4a (butter powder) and Class 4b (cheese/whey) manufacturing plants. More than 20 producer and processor organizations/individuals provided testimony at the hearing, including MPC, who testified on behalf of our members.

As a reminder, the hearing was called as a result of two industry requests for consideration (more information on these two proposals can be found at <http://www.milkproducerscouncil.org/updates/052711.pdf>).

- California Dairies, Inc. (CDI) requested that CDFA consider making changes that would reduce Class 2, 3 and 4a minimum prices by about \$0.43 per cwt.
- Land O'Lakes (LOL) requested that CDFA consider making changes that would increase the Class 4b minimum price by almost \$1.00 per cwt this month (*the largest part of this increase – the new proposed “dry whey factor” in the Class 4b price, would be a variable factor that moves up and down as dry whey prices move up and down, so the impact could change from month to month*).

After the hearing had been announced by CDFA, two additional “alternative proposals” were submitted for consideration at the hearing:

- Western United Dairymen (WUD) proposed that CDFA replace the current \$0.25 per cwt dry whey factor very a formula very similar to the dry whey calculation in the Federal Order Class III formula. Simply put, the formula would be 80% of the Federal Order Class III dry whey factor.
- The Dairy Institute of California – the main lobbying organization for the State’s processors – proposed a variable dry whey factor that was “capped” at \$0.75 per cwt and “floored” at \$0.25 per cwt.

MPC testified in support of the WUD and LOL proposals on the dry whey factor. Our board believes the California Class 4b formula should include a dry whey calculation that more closely follows the Federal Order valuation for dry whey in their Class III formula.

MPC also testified at the hearing in opposition to any make allowance adjustments at this time. The requested adjustments to the make allowances were based on CDFA data on operating costs of our state’s manufacturing plants in calendar year 2009. Given the extreme financial stress on the state’s dairy farmers in that exact same time period, the MPC board took the position that there was no justification for CDFA to place a higher priority on considering manufacturing costs than their duty to consider producer profitability as well.