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MILK PRODUCERS COUNCIL

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PR-632

Comments of Milk Producers Council
Ontario, California
on
Federal Order Reform
and
A Potential California Federal Milk Order
Prepared for the
House Agriculture Sub-Committee on
Dairy, Livestock and Poultry
March 26, 1998

Milk Producers Council is a dairy farmer trade association with about 200 members located in Southern and Central California. We offer these comments for consideration by the sub-committee on two topics; First on the need of the Secretary of Agriculture to positively respond to a petition submitted by our group in association with the California Dairy Campaign, a producer trade association with about 350 members, and milk marketing cooperatives Security Milk Producers, Cal-West Dairymen, Inc. and the National Farmers Organization to promulgate a California Federal Milk Marketing Order for California producer consideration. Secondly, our comments on the proposed Federal Milk Marketing Order Rule released by USDA on January 23, 1998.

One of the messages that is strongly emerging in the wake of the issuance of the Proposed Rule is that federal order reform is doomed without the alignment of California manufacturing prices with federal order prices. Milk Producers Council has been on the front lines in trying to get California officials to acknowledge and correct the misalignment that currently exists between manufacturing prices in California and those in rest of the Country. As will no doubt become painfully obvious from the other testimony that the Committee will receive today, if Federal Order Reform is to have any chance of success, California manufacturing prices must come in line. We are convinced that California officials will not on their own correct the problem. They have had many opportunities to do so, most recently in the fall of 1997 and have stubbornly refused to make even small steps in a corrective direction. Therefore, we as California producers believe that the only realistic chance that exists to bring California prices in line is to actively pursue the establishment of a California Federal Milk Marketing Order. We have petitioned the Secretary of Agriculture to promulgate an order for California producer consideration. We need members of Congress to encourage USDA to favorably respond to our petition. Normally USDA waits until they receive overwhelming cooperative support in a region for a federal order, before they publish an order. In this case, a number of California manufacturing cooperatives, who enjoy the marketing advantages California's cheap milk policy gives their plants in the national marketplace, are opposing USDA in putting out an order for producer consideration. We, as California producers do not want to be responsible for dragging the rest of the country's price down to our level, nor do we wish to be responsible for the failure of the federal milk order reform effort. We need a chance to take the issue of becoming a California federal order directly to our fellow producers in California. In order to do that, USDA needs to show us what a California federal order would look like. Our petition outlines a specific California Federal order modeled on the new proposed rules. Because of the huge impact California has on the rest of the national dairy industry and the fact that we need a specific proposal from the Secretary of Agriculture in order to have a chance of success in persuading our fellow California producers of the wisdom of becoming a Federal order, we respectfully ask the committees support in encouraging USDA to proceed with the promulgation of a California Federal Milk Marketing Order.

On the issue of the specific reforms, USDA is to be commended for their outstanding professional work in producing a proposed federal order reform rule that modernizes the system while maintaining its pro-producer emphasis. However, we do have the following concerns with the proposed rule:

* On the class 3 and class 4 milk pricing formulas, which are driven off of end product values, we are concerned about the development of the NASS plant price surveys for butter, cheese, powder and whey. Our concern is based on our experience in California which uses a plant survey price for our class 4a. The problem is that California, in addition to doing a monthly price survey for class 4a purposes, also conducts a published weekly average price. We are credibly told that over 90 percent of the volume of powder in that weekly price survey has been sold at a price that is directly indexed to the previous weeks average price. This creates a circular situation where if the market price of powder is moving up reflecting supply and demand conditions, less than 10 percent of the volume in the plant survey reflects the increase in market value. The index does move up a little bit the next week but because of the small volume of truly market priced product in the survey it takes many weeks for the price to rise. it never hits the top of the market and buyers exploit the cheaper indexed prices by accelerating purchases under the long term indexed contracts. When the market begins to fall, buyers reduce indexed contract deliveries to take advantage of the cheaper product available on the open market and the plant survey price drops much faster than it rose. This type of system does not reflect the real market value for powder and hurts producers. We do not want to see the whole nation adopt such a flawed product price discovery mechanism. The solution to this problem is either to use exchange prices, which in the case of powder and whey do not exist, or exclude from the NASS plant price survey all volume of product, if its sales price is indexed to that same NASS survey. This point is crucial.

* We expect that there will be some modifications of the make allowances and yields in the class 3 and class 4 formulas. We do not strongly oppose the National Milk Producers Federation proposal for cheese and whey. But we do believe that NMPF went too far in raising the butter make allowance and we think USDA was fairly close to accurate their proposed powder yield.

* For class 1 we strongly support Option 1A, and strongly oppose Option 1B. 1B is based on a complicated computer model that has some obvious flaws. Example: Los Angeles County has a class 1 differential of $1.22 per cwt., San Bernardino County has a differential of $1.41 per cwt.

* We also support the concept of using a type of moving average base price for class 1. We are intrigued by the six month declining average proposed by USDA and could probably support it. We also like the proposed use of the higher of either the class 3 or class 4 solids price as the value in the base price.

* Finally, we support component pricing, but we would like to see it extended to class 1 milk as well.