EXHIBIT C

Testimony of Rob Vandenheuvel

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California Department of Food and Agriculture Hearing on Temporary Milk Pricing Adjustments

May 20, 2013

Mr. Hearing Officer and Members of the Panel, my name is Rob Vandenheuvel and I am the General Manager of Milk Producers Council (MPC). MPC is a non-profit trade association with office locations in Ontario, Bakersfield and Turlock, California. We represent a voluntary membership of dairy families throughout Southern and Central California. My testimony today is based on positions adopted by the MPC Board of Directors.

The California Food and Agricultural Code outlines some general "purposes" for why CDFA is involved in establishing minimum prices. One of those purposes is:

"Enable the dairy industry, with the aid of the state, to develop and maintain satisfactory marketing conditions, bring about and maintain a reasonable amount of stability and prosperity in the production of market milk, and provide a means for carrying on essential educational activities." (Section 61805(d))

Given the discussions both inside and outside of this building over the past two years, it is clear that this particular goal, outlined by the California Legislature, is not being achieved. Fortunately, the Secretary has an opportunity in this hearing to take a significant step towards rectifying that.

<u>The Profitability – or Lack Thereof – of Producing Milk in California</u>

Included in the call of today's hearing is the following statement:

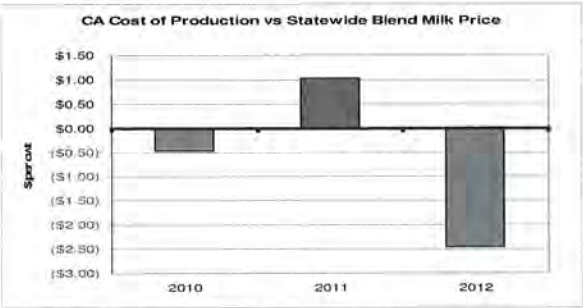
The Secretary's decision will include consideration of all relevant economic factors including, but not limited to, the following:

- *The reasonableness and economic soundness of market milk prices for all classes, giving consideration to combined income from those classes, in relation to cost of production and marketing for all purposes including manufacturing.*

This language is pulled straight from Section 62062(a) of the California Food and Agricultural Code, although it omits an additional clause that immediate follows: *"In determining the costs, the director shall consider the cost of management and a reasonable return on necessary capital investment."* This language is also cited on CDFA's website as the reason why the Department maintains data on the cost of producing milk in California.

Given that stated focus of the hearing, and the fact that CDFA maintains data specifically on this point, it seems logical to start by looking at CDFA's data. The table and chart below shows the average statewide cost of production, as calculated by the Department's Cost of Production unit, compared to the statewide blend milk price.

	CA Cost of Production	CA Blend Milk Price	Difference
2010	$15.23	$14.77	($0.46)
2011	$17.54	$18.57	$1.03
2012	$19.08	$16.62	($2.46)
Avg	**$17.28**	**$16.65**	**($0.63)**



As CDFA's own data demonstrates, California's dairy families have been subjected to financial losses in two out of the last three years, with an average loss over that time period of $0.63 per hundredweight. To put these figures in perspective, a 1,000 cow dairy producing 65 pounds of milk per cow, per day, would reasonably expect to have lost – according to CDFA's own economic data – **about $450,000** during that three year period, or about **$450 per cow**. *(This data does not even include the historic levels of debt accumulated by California dairy families during the economic devastation of 2009, when the Statewide cost of production was reported at $16.86/cwt compared to a statewide blend milk price of $11.56/cwt; a gap of $5.30/cwt for the entire year.)*

It's difficult to comprehend these kinds of losses, and the impact they have on a family that's watching their business, their equity and their future slip away. It's difficult to understand what possible public benefit there might be to this senseless economic devastation for dairy farmers. It's difficult to watch the continuing dispersal sales and bankruptcies without feeling angry and betrayed by a system that was put in place to "bring about and maintain stability and prosperity in the production of market milk." Today's hearing is a chance to chart out a new future.

Digging into these Numbers

When examining the California pricing system, one of the common themes we will hear at today's hearing is how our regulated prices compare to the regulated prices announced by the Federal Milk Marketing Orders around the country, which is the predominant regulatory structure in dairy areas outside of California. Classes 4a and 4b make up a vast majority of the milk produced and sold in California, and the Federal Order system provides an excellent reference for comparison, as it, too, has monthly minimum prices announced for these two classes (Federal Order Classes III and IV).

	CA Class 4a	F/O Class IV	Difference	CA Class 4b	F/O Class III	Difference
2010	$14.81	$15.09	($0.28)	$13.17	$14.41	($1.24)
2011	$18.82	$19.04	($0.23)	$16.37	$18.37	($2.00)
2012	$15.63	$16.01	($0.37)	$15.54	$17.44	($1.91)
Avg	**$16.42**	**$16.71**	**($0.29)**	**$15.02**	**$16.74**	**($1.72)**

As you can see, there is a significant difference between the California Class 4a/Federal Order Class IV (butter/powder) relationship and the California Class 4b/Federal Order Class III (cheese/dry whey) relationship. While both of these California classified prices are consistently below their Federal Order counterpart price, the Class 4b price has seen a significantly larger discount.

Looking specifically at the gap between the California Class 4b price and the Federal Order Class III price, another interesting fact is exposed. Over the 2010-2012 period, we've already established that the CDFA data indicates that California dairy farmers received a statewide blend milk price that was $0.63 per hundredweight ***below*** the state's estimated cost of producing that milk. Over that same period, the

California Class 4b price was below the Federal Order Class III price by an average of $1.72 per hundredweight. About 42 percent of the total pooled solids in the California pool were sold to Class 4b manufacturers during that three year time period, so that $1.72 per hundredweight gap represents about $0.72 per hundredweight when blended through the California pool ($1.72 X 42%).

So in short, based on CDFA's own cost of production and milk price data, the significant discount in the California Class 4b price is arguably the difference between dairy farmer profits and losses in California. This is significant as the Department considers what changes to make to the California pricing structure. The problem has been, and continues to be, specific to the way we price milk sold to California cheese manufacturers, and the significant discount our current Class 4b pricing formula provides.

While we cannot do anything about the damage that has already occurred, today's hearing provides an opportunity to make sure we right this wrong going forward.

Support for Dairy Producer Proposal

That leads to MPC's position in this hearing, which is to support the producer proposal for an increase to the Class 4b price of $1.20 per hundredweight. This proposal is the only logical response to the facts outlined above.

While there will undoubtedly be testimony today on several efforts currently underway to make longer-term structural changes to the California pricing structure – such as the discussions about crafting a California Federal Milk Marketing Order or the Department's Task Force – dairy families are in need of this price adjustment immediately. Per the call of the hearing, the relief will be temporary in nature, ultimately giving way to broader reforms coming out of those discussions. But while those efforts are ongoing, California's dairy families are desperately in need of a pay price that meets the standards laid out in the call of the hearing and in the California Food and Agricultural Code.

Restoring Fairness and Equity in the System

Finally, I would like to bring up some points that MPC brought up in the December 21, 2012 hearing with regard to the function of pooling in California. These points provide further evidence to why a meaningful increase in the Class 4b price is absolutely critical.

The dairy producer community has been extremely vocal and active in the past two years, pointing out the desperate need for an increase in the pay price for milk, particularly with respect to the Class 4b price. While producers have been fighting for their financial lives, we've seen a specific line of rhetoric emerge from the State's cheese manufacturers. Their basic argument is that minimum prices are fine where they are – some have even proposed lowering them in the past – and premiums should be the only tool we use to increase our pay price for milk. A few of those examples are:

- "Hilmar Cheese Company supports a low regulated minimum price that allows the market to efficiently set high market-driven prices." *(Testimony of David Ahlem, Hilmar Cheese Company, May 31, 2012 CDFA hearing)*
- "Cooperatives should use milk premiums over minimum pricing as a way to improve producers' income based on the supply and demand of milk in a working market." *(Testimony of Barry Murphy, Independent Consultant, May 31, 2012 CDFA hearing)*
- "Why don't these producers merely go to their customers and raise their price?" *(Letter to CDFA from Michael Shotts, Farmdale Creamery, March 8, 2012)*
- "The role of regulated prices should be to undergird the market, providing some stability yet leaving room for market forces to work." *(Testimony of Dr. Bill Schiek, Dairy Institute of California, June 30, 2011 CDFA hearing)*

To those that don't fully understand how milk is marketed in California, this rhetoric sounds pretty logical. Why should we worry about the minimum prices? Why not just focus on generating higher premiums? The reason is actually quite simple when you step back from the minimum pricing formulas and look at the pooling system as a whole.

One of the Secretary's considerations specifically spelled out in the California Food and Agricultural Code is the reasonableness and soundness of the relationship between the various classes (paraphrase from Section 62062(c)). That consideration was also specifically included in the official notice for today's hearing. Why is that in there? The reason is simple. While today's hearing is specifically on the five minimum prices established each month, we need to remember that these minimum prices do not exist in a vacuum. California operates under a Pooling Plan that pools the revenues from the sale of milk in each of the five classes. One of the fundamental tenets of that pooling structure is that each of the five classes must make a ***fair and equitable*** contribution to the pool.

We recognize that this does not mean all five class prices must be equal, but the Secretary is nonetheless tasked with maintaining a fair and reasonable relationship between the classes. Today, let's specifically look at the relationship in the past several years between our two main manufacturing classes: Classes 4a and 4b.

Over the past three years, since January 2010, the Class 4b price has averaged $15.05 per hundredweight, while the Class 4a price has averaged $16.51 per hundredweight – an average difference of $1.46 per hundredweight. At the same time, the overbase price – which is the price plants are obligated to pay their milk suppliers – has averaged $15.76 per hundredweight. What that means is that since January 2010, in order to be able to pay their producers the blended overbase price, Class 4b plants have collectively ***received*** **more than $410,000,000 out of the California pool**. At the same time, Class 4a plants have had to not only pay their milk suppliers the blended overbase price, but on top of that they have collectively ***contributed*** **more than $323,000,000 to the California pool**.

What does this mean? Through California's regulated pooling system, our butter/powder plants – as well as the plants that buy Class 1, 2 and 3 milk – have been heavily subsidizing the cheese plants over the past three years. Without our pooling system, how much milk would our cheese manufacturers have been able to purchase at $15.05 per hundredweight while every other class – including the other main manufacturing class – is paying significantly more? Instead, those cheese plants were able to compete for milk on an equal playing field with the butter/powder plants, since hundreds of millions of dollars was being taken from the butter/powder plants and given to the cheese plants.

It's frankly dishonest for our cheese manufacturers to lecture dairy farmers and their cooperatives about "going to the marketplace" for additional revenue, while the regulated system has overseen the transfer of more than $410,000,000 in pool revenues they did not earn in order to pay the market price for the milk they need. This is why Milk Producers Council believes that the dairy producer proposal, which would result in a significant increase in the Class 4b price, is an appropriate adjustment for CDFA to make. It's about fairness and justice, something the Secretary is sworn to uphold.

Conclusion

In conclusion, for all the reasons stated in this testimony, MPC strongly urges the Secretary and the Department to utilize the authority granted under the law to increase the Class 4b price. The facts certainly justify this critical adjustment.