

California milk war heating up

By Michael B. Marois, Bloomberg

Ray Souza's voice cracks a bit when he says it, when he tells how his family's Turlock dairy farm is struggling to pay the bills.

"We go from black to red month by month," the 66-year-old said. "For us, it's break even at best."

Souza is like many other dairy farmers in the state who say the price they're paid for milk from cheese producers isn't enough to cover the soaring cost of feeding cows. Those economics have caused a fifth of California's dairies to shutter since 2007, according to state agricultural figures.

California is the largest milk-producing state in the U.S., accounting for 20 percent of the national supply. Cheesemakers buy about 43 percent of all the milk produced in California at prices set under the state's unique pricing system rather than by federal formulas.

The dairy industry has petitioned the state to raise the prices cheesemakers must pay to buy California milk and have sought legislation to change a pricing system that dates to the 1930s. The producers say raising prices will harm them, the very people the dairy farmers need to buy their milk.

"There needs to be a balance between producer prices and what the market can bear in terms of the product we manufacture and the market for those products," said Rachel Kaldor, executive director of the Sacramento-based Dairy Institute of California, which represents processors. "In order for us to be able to stay in business, we need to be able to buy milk at a price that allows us to do that."

Under California's system, the state Food and Agriculture Department sets the minimum price for five classes of milk. The most expensive is fluid milk found at the dinner table. The cheapest is cheese. The system was set up in part to encourage more cheesemakers to open plants in California.

Farmers say the state system pays less than federal prices for milk used to make cheese and for whey, a dairy byproduct. California's system worked for dairy farms a half-century ago, when 60 percent of milk sold was fluid. Now, almost 80 percent is sold for products such as butter, dry milk, powders and cheese, the least profitable of the classes.

The system has left cheesemakers paying less for milk they buy from California than elsewhere. California farmers in March were paid 19 cents per gallon less for milk sold to cheesemakers than those in Washington, Oregon, Wisconsin, Minnesota, New York, Pennsylvania, Vermont, Texas and Arizona, according to state and federal figures.

With the bulk of their product sold at the cheapest prices, hundreds of dairy farms were unable to stay in business as livestock feed costs rose. Corn prices, for example, reached a record \$8.49 a bushel on Aug. 10 after last year's drought, the worst since the 1930s, lowered U.S. output by 13 percent.

Frantic to boost income, farmers have been flooding the market with as much milk as they can, causing prices to decline even more.

"The last-man-standing syndrome comes into play," said Sybrand Vander Dussen, president of the Ontario, California-based Milk Producers Council, which represents the state's family-owned dairy farms. "You are trying to last longer than your neighbor."

The farmers have been pressing California Food and Agriculture Secretary Karen Ross to add as much as a \$1.20 subsidy per 100 pounds to the price of milk used for cheese. The price reached

\$15.91 in June.

Ross has said she doesn't believe the problems facing the dairy industry in California can be fixed simply by increasing the minimum price. Last month, she again rejected their petition and opted to add a temporary surcharge of 12.5 cents per 100 pounds on average for all five classes for six months.

"California dairies and processors must operate within national and international markets that require the manufacture of milk products to be competitive with those produced elsewhere in terms of variety, price and quality," Ross said in a letter announcing her decision June 21.

She also acknowledged that the program needs to change.

"Our system of regulated milk pricing is an antiquated one that impairs the ability of the dairy industry to rise to this challenge," she said.

The dairy farmers pressed Assemblyman Richard Pan, a Democrat, to introduce a bill that would require the state's milk-pricing system to more closely match how the federal program works. Pan's bill was blocked by opposition from the cheese industry.

Nevertheless, Pan helped negotiate a short-term fix that has the cheese processors paying \$110 million into a milk pool to be shared by dairy farmers while a task force devises a permanent fix.

"We needed to get immediate relief for California dairy farmers," Pan said in an interview. "This is a good first step."

Souza, the Central Valley farmer, said that in the last year he's seen three of his neighboring farms go out of business. He watched one day as cattle trucks rumbled up to one of those farms and repossessed the owner's Jersey cows.

“She was sitting off to the side and crying,” Souza said of the owner. “There is so much emotion right now in the industry. These are folks who have worked their entire life in dairy, sometimes multiple generations, and suddenly they don’t have a farm anymore.”