

**Testimony for House Agricultural Subcommittee on Livestock, Dairy and Poultry  
Hearing on April 24, 2007**

Good morning, my name is Kelly Krug. I am the Director of the Division of Marketing Services of the California Department of Food and Agriculture. Thank you for the invitation to speak to you about the hearing process used by California's dairy pricing and pooling systems.

I direct the Division of the Department that administers the State's milk pooling and pricing system. For more than 70 years the Department's California dairy pricing program has worked to carry out four goals established by the California legislature which are stated in the Food and Agricultural Code: They are: 1) maintain an adequate and continuous supply of pure and wholesome fluid milk to consumers; 2) eliminate unfair dairy trade practices; 3) promote and encourage intelligent production and orderly marketing; and 4) maintain a reasonable level of stability and prosperity in the California dairy industry. These goals address the interests of all parties, including producers, processors, cooperatives, retailers, and consumers. California's dairy pricing system is similar to federal milk marketing orders. Both rely on establishing minimum farm milk prices for producers.

USDA's federal milk marketing orders regulate more than two-thirds of the Grade A milk marketed today. California is the principal milk production area that does not fall under the jurisdiction of a federal order and has maintained its own state milk marketing order since the passage of the Young Act in 1935. California also has operated a milk pooling program since the passage and implementation of the Gonsalves Milk Pooling Act in 1968 which provides for dairy producers to share their revenue from the sales of all classes of milk. Again, California's operation of milk pooling is quite similar to pooling that is done in federal milk marketing orders.

Currently, California operates its milk pricing plan with two marketing areas: Northern California and Southern California. Each marketing area has a separate but essentially identical Stabilization and Marketing Plan. Each plan specifies the formulas for establishing minimum prices for California's five classes of milk. Much like federal milk marketing orders, and to promote stability in the State's dairy industry, California's milk marketing program establishes minimum prices that processors must pay for fluid grade or Grade A milk received from dairy farmers based on end product use. These prices are established within defined marketing areas where milk production and marketing practices are similar.

The California pricing system is designed to encourage innovation and react quickly to market signals. Minimum farm prices are determined by supply and demand signals that are based upon actual market prices for manufactured dairy products. These formulas are established through a public hearing process in which interested parties offer testimony and evidence relating to the proposed formulas. Revisions to these pricing formulas, other provisions of the Stabilization and Marketing Plans, and provisions of the Pooling Plan for Market Milk are made only after a public hearing has been held.

Most hearings are initiated by entities representing either milk producers, cooperatives, or milk processors but can be requested in writing by any interested party. Infrequently, the Department will call for a hearing on its own motion. This formal hearing process generally allows for changes to be implemented in approximately three to five months.

Next, I will outline the steps of the hearing system:

The request for a hearing must be received in writing and must specify which Plan is recommended for change, that is, which of the Stabilization Plans and/ or the Milk Pooling Plan. A request must explain why a change is sought and must include relevant analysis and data along with proposed implementation language.

Once a request is received, the Department has 15 days calendar days to decide if a hearing will be granted. If the Department accepts the request, a formal hearing announcement is released with a timetable for the hearing events.

A filing period for submission of alternative proposals is identified and a few weeks before the hearing is conducted, the Department will hold a prehearing workshop. The workshop allows the requestor and any parties filing alternatives to explain their proposals. The Department also performs initial analyses of all proposals which are released at the pre-hearing workshop.

Departmental exhibits are made available to the public seven days prior to the date of the hearing. Then the hearing is conducted. Most hearings require one or two days to complete. The Department generally allows up to a 10 day brief filing period for participants to clarify or amplify their testimony presented at the hearing.

From the date of the hearing completion (oral testimony), the Department is required by the Food and Agriculture Code to implement any changes resulting from the hearing within sixty-two days. The Code also requires a ten-day notice to the public of the upcoming changes which reduces the analysis time to 52 days from the hearing closure.

I have included a hearing timeline diagram with my testimony that further explains the hearing process. Also, a summary brochure is included that provides details of the dairy hearing process to interested parties.

This concludes my testimony. Thank you for the opportunity to speak today about the hearing process used for the California dairy pricing and pooling systems. If you have questions regarding our program, I'll be happy to try to answer them.

Attachments (2) Hearing Pamphlet, Hearing Timeline