



July 8, 2008

Mr. A.J. Yates, Undersecretary
California Department of Food and Agriculture
Office of the Secretary
1220 N Street
Sacramento, CA 95814

Dear Undersecretary Yates:

I am writing this letter on behalf of myself and the other Whey Review Committee members whose companies Dairy Institute represents: Mike McCully of Kraft Foods, Sue Taylor of Leprino Foods, John Jeter of Hilmar Cheese, Scott Hofferber of Farmdale Creamery, and Andrew Branagh of Mozzarella Fresca. We have noted the request for information from three members of the Whey Review Committee, dated May 6, 2008, and feel compelled to comment on an assertion made in the letter supporting their request. The letter asserts that: "...It follows logically that the price inversion between dry whey and whey protein concentrate is the issue (emphasis theirs) that led to the hearing and, in part, the formation of the Whey Review Committee...."

We emphatically disagree that the dry whey-whey protein concentrate price inversion referenced in the Committee members' request was "the issue" that led the October 2007 hearing. A careful review of hearing testimony reveals that, while the price inversion was mentioned in the testimonies of a few of the cheesemakers, it was by no means the central thesis of their arguments for changing to the Class 4b pricing formula. Of the eight cheesemakers who petitioned for the hearing, only one was engaged in whey protein concentrate manufacturing and potentially bothered by the price inversion. The bulk of cheesemakers' testimony focused on two issues: 1) the need to encourage investment and new plant capacity by adjusting the formula to improve cheesemaker margins and 2) the need to protect existing plant capacity by shielding California cheesemakers from whey price-induced milk cost increases for which the plants earned no corresponding revenue. We want to make certain that you, your staff, and the members of the Whey Review Committee understand that simply "fixing" the Class 4b formula to "correct" for the price inversion between dry whey and whey protein concentrate does not adequately address the concerns expressed by cheesemakers at the October 2007 hearing.

Given the surplus of milk that has been produced in California in 2006, 2007 and 2008, the need for the state to maintain existing plants and grow new cheese plant capacity is of paramount importance to the financial well being of producers. We would like to request two analyses prior to the Whey Review Committee meeting on July 17th.

1. We would like the Department to compare, for the months of December 2007 to June 2008, the monthly Class 4b prices under the current formula with the Class 4b prices that would have been generated by the previous formula with make allowances adjusted to reflect the most recent weighted average manufacturing costs for cheddar cheese (\$0.1988 per pound) and dry whey (\$0.3099 per pound) and updated f.o.b. price adjusters for butter (-\$0.0309) and cheese (-\$0.0252).
2. We request that the Department compare the actual pool revenues for the first five months of 2008 to estimated pool revenues using 2008 milk volumes and 2007’s class utilization percentages. What we would like to see is the impact of reduced Class 4b utilization on pool revenues in 2008.

Thank you for your consideration of our comments and our information requests.

Sincerely,

William Schiek
Economist

cc: A.G. Kawamura, Secretary
Kelly Krug
David Ikari
Jim Morgan