

DAIRY INSTITUTE *of California*

The Honorable A.G. Kawamura, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

December 21, 2005

Dear Secretary Kawamura:

I am writing on behalf of the Dairy Institute of California to ask you to deny the petition of Western United Dairymen and the Alliance of Western Milk Producers seeking a hearing for consideration of their proposal to increase Class 1 prices. Dairy Institute is a trade association whose processor membership represents over 75% of the fluid milk, ice cream, and cultured products processed in the state, as well as approximately 65% of the cheese manufactured in the state. Member companies also process a small percentage of the butter and nonfat dry milk made in the state.

As you are doubtless aware, the Department and industry had a thorough airing of Class 1 pricing issues at hearings held in both Northern and Southern California in May 2005. At the hearing, the panel recommended a significant reduction in Class 1 prices. The hearing record shows that there was undisputed testimony from several witnesses regarding the difficulties Class 1 processors are facing competing with unregulated processors located outside the state for fluid milk business inside California. Raising Class 1 prices would put California fluid milk processors at an even greater disadvantage and is unwise policy. The hearing Decision noted that the Department has supported a federal legislative solution to these problems. Both Western United Dairymen and the Alliance of Western Milk Producers have invested heavily and have played a critical role in support of the legislative effort, but to date, the legislative solution has not been achieved.

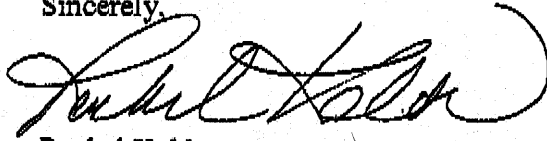
There are additional reasons why the petition should be denied. In its last Class 1 hearing decision, the Department concluded that the term "reasonable relationship" does not mean equating California prices with a weighted average of Class 1 prices in contiguous states, but rather to an approximate parity with a composite of the economic relationship of California with all surrounding regulated areas. Such a composite of the economic relationship would include the fact that Class 1 utilization in the California pool is significantly lower than in surrounding states, and that despite the great availability of milk, California's share of Class 1 sales is less than its share of the population. Consequently, it is reasonable for Class 1 price in California to be lower than those in contiguous states.

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In its decision, the Department noted that in 2004 California Class 1 prices were below Class 1 prices in Oregon and in Arizona, but above Class 1 prices in Southern Nevada, and argued that therefore there was no basis for changing Class 1 prices at this time. For 2005, California Class 1 prices were below Class 1 prices in Oregon and in Arizona, but above Class 1 prices in Southern Nevada, therefore, there appears to be no basis for another Class 1 price hearing at this time. We respectfully request that you deny the Western United Dairymen and Alliance of Western Milk Producers petition. Thank you for your consideration of our request.

Sincerely,

A handwritten signature in black ink, appearing to read "Rachel Kaldor", written in a cursive style.

Rachel Kaldor
Executive Director

cc: A.J. Yates; Kim Myrman; Kelly Krug; David Ikari; Candace Gates