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August 21, 2007

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

Re: August 14, 2007 Class 4b petition to eliminate dry whey component

Dear Mr. Secretary:

Western United Dairymen respectfully requests the denial of a hearing based on the petition recently submitted by eight California cheese manufacturers. The petition calls for immediate elimination of the dry whey component in the Class 4b pricing formula.

We offer the following points for your consideration:

- California producers would suffer severe financial impact by the removal of the dry whey component. At the peak of dry whey prices in June 2007, the removal of the dry whey component would have shaved \$3.19 per hundredweight off the Class 4b price and an estimated \$1.56 per hundredweight on overbase prices. Even at the current lower dry whey prices, Class 4b prices would be slashed by \$1.73 per hundredweight and overbase prices reduced by an estimated \$0.84 per hundredweight. Over the past six months, the elimination of the dry whey component in Class 4b would have cost the California producer pool approximately \$221 million. According to 2006 CDFA data, California herd buyouts under the Cooperatives Working Together program and anecdotal information for the past several months, we estimate that up to 120 dairy families have left the business in the last 18 months. A financial hit this large during times of escalating production costs will surely ramp up consolidation in the industry and force many more dairy families out of business or out of state.
- Without the inclusion of the dry whey component, the value of the milk used to make cheese would be undervalued in California and lead to even greater disparities than have historically existed with the federal order Class III price. It is imperative that California's prices maintain a close relationship with federal order prices. During July 2007 California's Class 4b price trailed the federal order Class III price by \$0.84 per hundredweight. Absent the dry whey component, California's Class 4b would have been \$3.79 per hundredweight less than the federal order Class III price. Large discrepancies such as this would be unreasonable and contrary to provisions of the California Food and Agricultural Code.

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- It was just a year ago that both the cheese and dry whey manufacturing cost allowances were increased for California cheese manufacturers, which reduced producer prices and forced some families out of business.
- The dry whey manufacturing cost in California is \$0.2670 per pound compared to a \$0.1590-per-pound make allowance in federal order Class III pricing. This amounts to a \$0.108-per-pound or \$0.62-per-hundredweight cost advantage for California cheese manufacturers.
- Dry whey prices are dropping rapidly, falling from a peak of \$0.8238 per pound in late June to \$0.57 per pound today. This is a decline of \$0.2538 per pound or nearly 31% in less than two months. Policy should not be changed in response to a temporary spike in prices that are already returning to a more normal range.

We thank you for your careful consideration of this matter.

Very truly yours,



Michael L. H. Marsh, CPA
Chief Executive Officer

cc: George Gomes, Undersecretary
Kelly Krug, CDFA Marketing Services
David Ikari, Dairy Marketing Branch
Western United Dairymen Board of Directors