

August 4, 2008

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

RE: Petition for Emergency Class 1, 2 and 3 price hearing

Dear Secretary Kawamura,

The Alliance of Western Milk Producers and cosigning organizations respectfully submit this petition to urge you to call an emergency hearing to consider the implementation of a "surcharge" on the regulated minimum prices for Class 1, 2 and 3 milk. We are suggesting that this surcharge be in the amount of \$1.00 per cwt. for a period of 6 months.

Of particular concern is the dramatic and sudden drop in the milk-feed price ratio. This is a well-known and widely used ratio that picks up trends in costs and income and measures, in general terms, the health of the producer side of the dairy business. Most people in the dairy industry consider a milk-feed price ratio above 3.0 to be favorable. Since 1985, this ratio has not ever been below 2.0. However, as of April 2008, the ratio has fallen below that level and continues to fall – standing at 1.78 in June. Attached to this letter is a graph showing the milk-feed price ratio from January 2006 through June 2008. The chart clearly shows how steep the decline has been this year and the obvious cost-price squeeze that California dairy producers face with current feed costs and milk prices.

As bad as it is now, the situation that will face producers over the next several months promises to be much worse. The prices of feed are at levels that have never been seen before but these costs will not be fully experienced by California producers until this fall when new concentrate contracts are executed for the coming year. During last year's fall contracting period corn prices were climbing from the \$2.50 per bushel range to \$3.50 in December. This year prices, while down a bit from the weather induced \$8.00 range, appear to be settling near \$6.00 per bushel. The implications of that kind of price increase on the single most important concentrate in dairy rations are frightening. A graph showing corn prices for the past year is attached for your review.

In the past week the CME cheese market has shown extreme volatility with barrel cheese after declining 9.25 cents on July 29th then posted a record drop of 28 cents on July 30th down to \$1.65. Block cheese also had big declines – losing a total of 24.5

cents over the two-day period of July 30th and 31st. When these kinds of price swings are viewed in conjunction with the feed price increases summarized above, the result is an untenable position for California dairy producers, and, hence, the reason why we are petitioning for a hearing to provide much needed price relief.

We are proposing an increase of 4 cents per pound of Fat and 10 cents per pound of SNF for Classes 1, 2 and 3. Attached are the appropriate changes to the Marketing and Stabilization Plans for Northern and Southern California. We have not added language to deal with the short term nature of our request, preferring to leave that to the judgment of your staff.

Our industry has been blessed to have world markets carry our prices upward at the same time we have had unprecedented increases in costs. Until now that has yielded a livable result but now it is clear that our prices are continuing to rise while the value of our product is slipping. We urge you to grant the hearing on this issue and allow the industry to present the full case for a temporary Class 1, 2 and 3 price increase.

Respectfully submitted:

William C. Van Dam, Executive Vice President
Alliance of Western Milk Producers.

Co Signers:

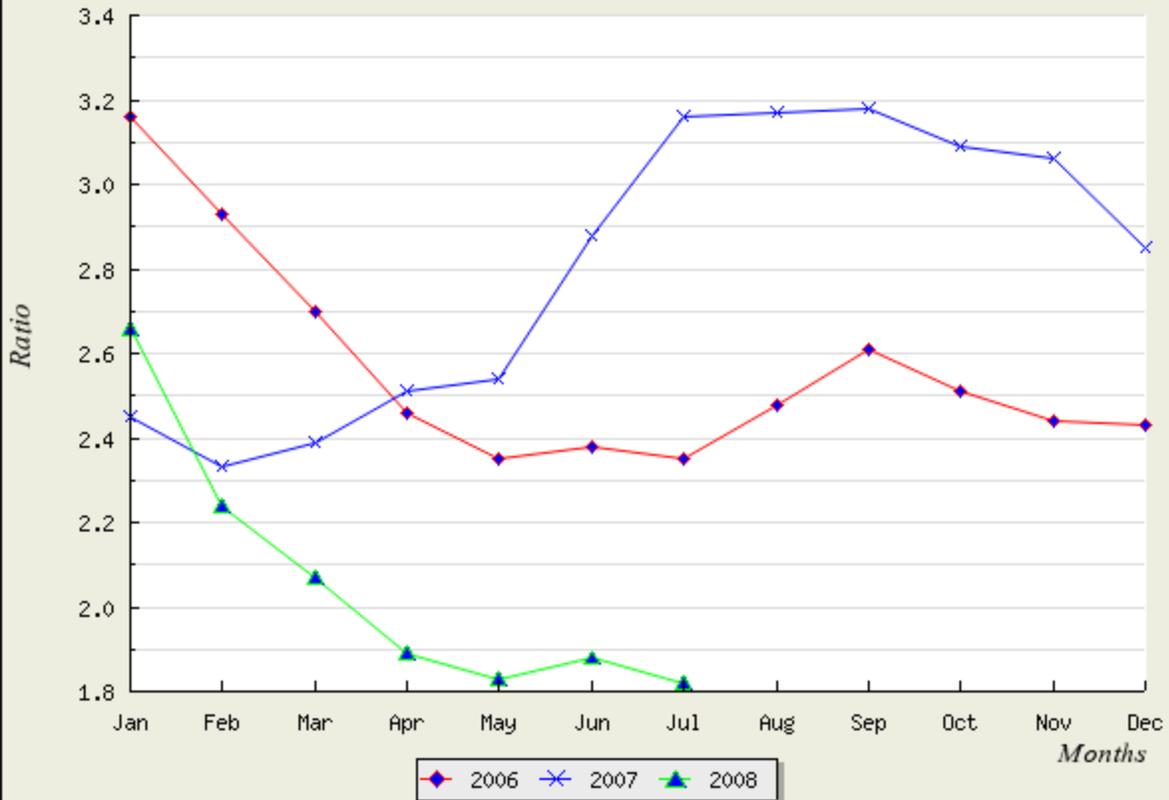
Linda Lopes, President
California Dairy Women Association

Michael Marsh, CEO
Western United Dairymen

Weekly Corn Prices July 2007 thru July 2008



Milk-Feed Price Ratio Area: US



Southern California Stabilization and Marketing Plan (66)

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

(A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of eleven and eight-tenths cents (\$0.118), and the result multiplied by a yield factor of 1.2, and then four cents (\$0.040) per pound added to the result.

(2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus fourteen and seven-tenths cents (\$0.147), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7, and then ten cents (\$0.100) per pound added to the result.

(B) The minimum bimonthly prices for components used for Class 2 shall be determined at the beginning of each even month, using the following formulas and procedures:

(1) For all milk fat, not less than the Average Class 4a fat price plus ~~three and ninety-three hundredths cents (\$0.0393)~~ seven and ninety-three hundredths cents (\$0.0793) per pound.

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~nine and one hundredths cents (\$0.0901)~~ nineteen and one hundredths cents (\$0.1901) per pound.

(C) The minimum bimonthly prices for components used for Class 3 shall be determined at the beginning of each even month, using the following formulas and procedures:

(1) For all milk fat, not less than the Average Class 4a fat price plus ~~three and ninety-three hundredths cents (\$0.0393)~~ seven and ninety-three hundredths cents (\$0.0793) per pound.

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~five and eighty-six hundredths cents (\$0.0586)~~ fifteen and eighty-six hundredths (\$0.1586) per pound.

Northern California Stabilization and Marketing Plan (51)

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

- (A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:
- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of eleven and eight-tenths cents (\$0.118), and the result multiplied by a yield factor of 1.2, and then two four (\$0.040) per pound added to the result.
 - (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus fourteen and seven-tenths cents (\$0.147), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7, and then ten cents (\$0.10) per pound added to the result.
- (B) The minimum bimonthly prices for components used for Class 2 shall be determined at the beginning of each even month, using the following formulas and procedures:
- (1) For all milk fat, not less than the Average Class 4a fat price plus ~~three and seven-tenths cents (\$0.037)~~ seven and seven tenths cents (\$0.077) per pound.
 - (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~six and forty-three hundredths cents (\$0.0643)~~ sixteen and forty-three hundredths cents (\$0.1643) per pound
- (C) The minimum bimonthly prices for components used for Class 3 shall be determined at the beginning of each even month, using the following formulas and procedures:
- (1) For all milk fat, not less than the Average Class 4a fat price plus ~~three and seven-tenths cents (\$0.037)~~ seven and seven-tenths cents (\$0.077) per pound.
 - (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~five and eighty-six hundredths cents (\$0.0586)~~ fifteen and eighty-six hundredths (\$0.1586) per pound.