The Alliance of Western Milk Producers

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October 5, 2009

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

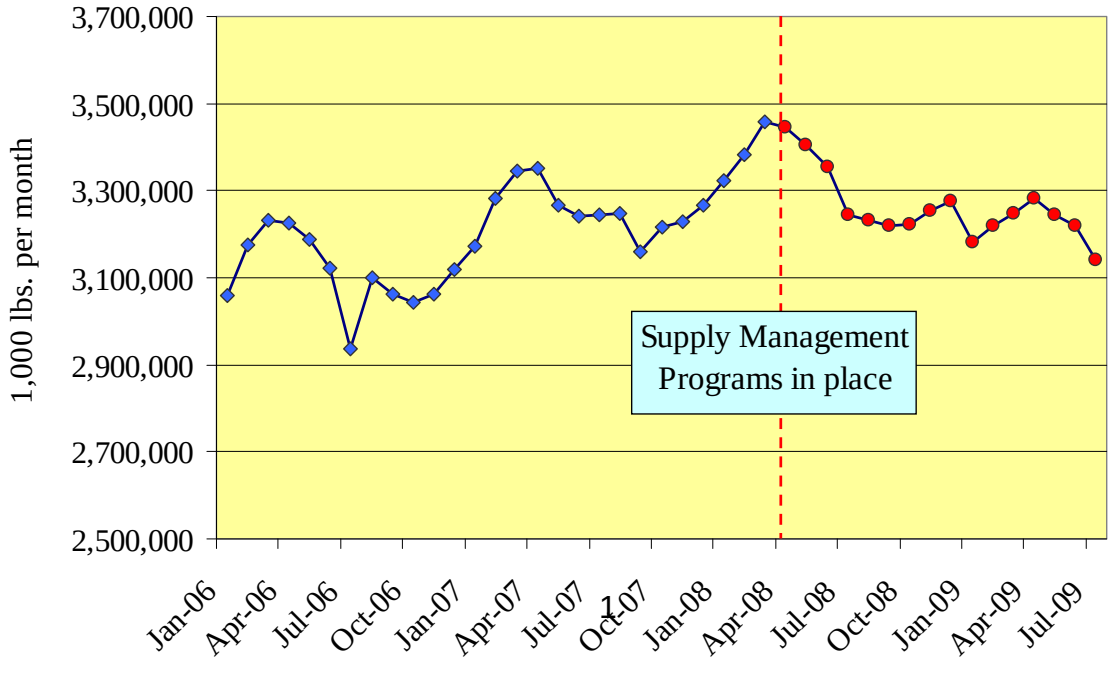
Dear Secretary Kawamura,

The Alliance of Western Milk Producers respectfully submits this petition asking you to call an emergency hearing to consider increasing the Class 1 price by $0.50 per cwt and Classes 2 and 3 by the amount they were reduced ($0.26 per cwt) as a result of the Oct 2008 hearing on these same matters.

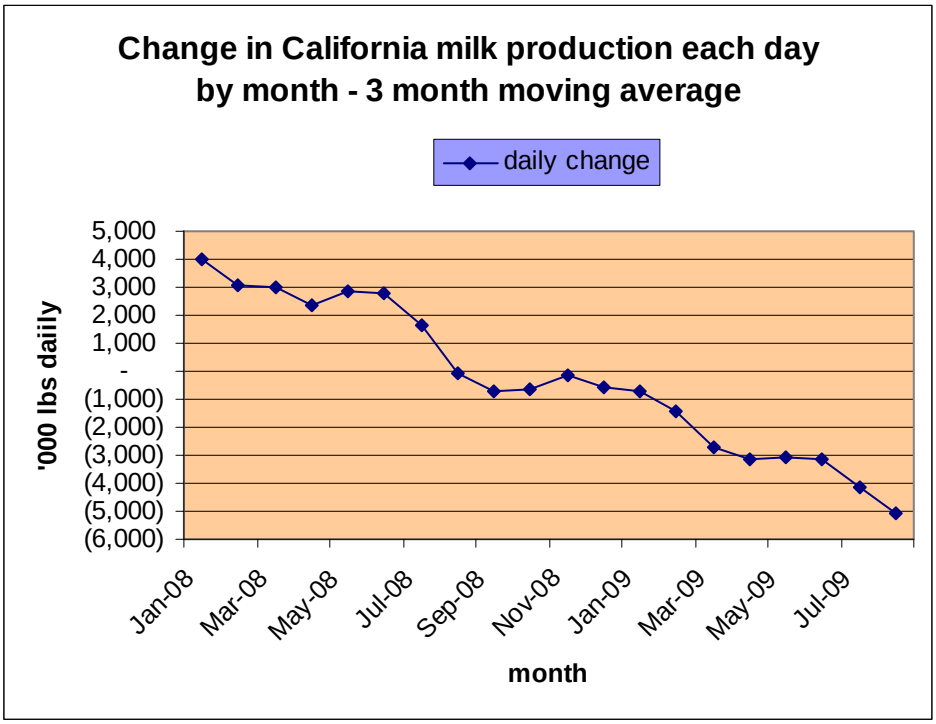
At the time of the hearing, the circumstances in the California dairy industry and factors affecting dairy policy decisions were much different than they are today – farm milk prices have dropped and not recovered, and milk production costs continue to run far ahead of historic levels. In combination, these two factors have helped to lead to less milk produced in the State. In fact, milk production compared to the same month the previous year has fallen for 11 straight months, and, consequently, many of the concerns regarding adequate plant processing capacity in California have been swept away.

The overriding concern held for the California dairy industry throughout much of 2008 was the imbalance of milk supply and processing plant capacity. The milk supply exceeded the plant

CA Milk Production by Month, January 2006 to July 2009
(Corrected to 30-day months)



capacities available in the state, leaving few viable marketing options for California producers. Although all the major cooperatives and Hilmar Cheese Company had implemented milk production base programs by April 2008, it was difficult for milk production to be handled. This trend continued until slight decreases were recorded in July and August. The month of October brought about the start of something that had not been experienced before – sustained decreases in California milk production. The milk supply has **decreased** every month since then. Alarmingly, this trend shows no sign of letting up, and milk production continues to fall off at an increasing rate. The chart below shows the average daily change in milk production for each month expressed as a 3 month moving average. The decrease in milk supply in August 2009 compared to August 2007 is 6.8 million pounds of milk per day or a decline of 6.1%. That is equivalent to 120 tanker loads per day less milk than was being produced in July 2007, an amount of milk that could easily supply some of the largest processing plants in the State. As a point of reference, all of the supply management programs implemented used milk production levels in 2007 in one form or another as the baseline. With milk production falling off so dramatically, the production base programs are not constraining, i.e., they are not actively limiting the amount of milk being produced.



With milk production spiraling downward, there is no need to answer to the oft-asked question of plant capacity. Data maintained by the Department of Food and Agriculture will clearly show that the State had more milk than plant processing capacity in 2008. Simply, the reductions in milk production are deep enough that the issue is no longer even relevant. In addition, California Dairies, Inc. will be commissioning its 7th processing plant in the next three months. Combined with the 2009 plant expansions at Leprino's Lemoore facility and Land O'Lakes, Inc.'s Tulare facility, processing plant capacity will not be an issue in the near future.

Another matter cited in the Panel Report published by CDFA is that of "homeless" milk from California finding its way to out-of-state plants at discounted prices. As such, that milk is not subject to California price regulation, and can be bottled and returned to compete with regulated California milk products. This scheme is clearly a thing of the past with the availability of California processing capacity. The rather abrupt end of the "homeless" milk in California has had a dramatic effect on the viability of the Class 1 plant located in Yerington, Nevada. Clearly, the sustainability of the Yerington plant depended on an abundant supply of milk not subject to price regulations. Simply, without cheap milk, the Yerington plant is unable to compete with California fluid milk processing plants. These changes have all occurred since the October 2008 hearing.

Every year, the Department is required to assess the level of California's Class 1 prices relative to those in surrounding states. Although the data for 2009 is not yet complete, the indications through October are that the Class 1 prices in Northern California are averaging about $0.35 per cwt. lower than the Pacific Northwest Order, and Class 1 prices in Southern California are averaging about $0.55 per cwt. lower than the Arizona Order. Not surprisingly, these differences are about equal to the reduction in California Class 1 prices that were implemented as a result of the October 2008 hearing.

And finally it should be noted that 2009 has been without a doubt one of the most challenging and devastating years endured by dairy producers. The near financial ruin brought about by low milk prices and high production costs has caused droves of producers to exit the business, either through participation in CWT's herd buyout programs or by simply sending the cows to the auction yard and shuttering the dairy.

Nearly all of the conditions that justified the decision to reduce Class 1 prices have changed in less than one year. With the complete set of Class 1 pricing data nearly available, we believe the timing is right to call a milk pricing hearing to correct the pricing inequities that exist with California and surrounding markets.

Sincerely,

William C. Van Dam
Executive Vice President

Southern California Stabilization and Marketing Plan (68)
Article III - Class Prices

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 thirteen and fifteen hundredths cents ($0.1315), and the result multiplied by a yield factor of 1.2.

(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, ~~minus twenty and three-tenths cents ($0.203)~~ **plus twenty-nine and seven tenths cents ($0.297),** 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.

(3) For all fluid carrier, 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, ~~minus twenty and three-tenths cents ($0.203)~~ **plus twenty-nine and seven tenths cents ($0.297),** less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8.

(4) The Commodity Reference Price per hundredweight shall be the higher of either:

(a) The sum of the following three formulas:

(i) The price per hundredweight computed by the formula using the Cheddar cheese price determined pursuant to Subparagraph (A)(6) of this Section, multiplied by a Cheddar cheese yield factor of nine and eight-tenths (9.8).

(ii) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less ten cents ($0.10), all multiplied by a whey butter yield factor of twenty-seven-hundredths (0.27).

(iii) The price per hundredweight computed by the formula using the dry whey price determined pursuant to Subparagraph (A)(7) of this Section multiplied by a dry whey yield of 5.8, all less a dry whey adjuster of eighty-five cents ($0.85).

(b) The sum of the following two formulas:

(i) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, multiplied by a butter yield factor of 1.2, and the result multiplied by 3.5.

(ii) The price per hundredweight computed by the formula using the nonfat dry milk price determined pursuant to Subparagraph (A)(8) of this Section, multiplied by a nonfat dry milk yield factor of 0.99, and the result multiplied by 8.7.

(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 tenths cents (0.0393) per pound.**

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~seven and fifty-seven hundredths cents ($0.0757)~~ **plus nine and one hundredths cents ($0.0901)** 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) per pound.**

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~four and thirty-three hundredths cents ($0.0433)~~ **five and eighty-six hundredths cents ($0.0586)** per pound.

Northern California Stabilization and Marketing Plan (53)
Article III - Class Prices

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 thirteen and fifteen hundredths cents ($0.1315), and the result multiplied by a yield factor of 1.2.

(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, ~~minus twenty and three-tenths cents ($0.203~~) **plus twenty-nine and seven hundredths cents ($0.297)**, 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.

(3) For all fluid carrier, 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, ~~minus twenty and three-tenths cents ($0.203~~) **plus twenty-nine and seven tenths cents ($0.297)**, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8.

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(a) The sum of the following three formulas:

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(iii) The price per hundredweight computed by the formula using the dry whey price determined pursuant to Subparagraph (A)(7) of this Section multiplied by a dry whey yield of 5.8, all less a dry whey adjuster of eighty-five cents ($0.85).

(b) The sum of the following two formulas:

(i) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, multiplied by a butter yield factor of 1.2, and the result multiplied by 3.5.

(ii) The price per hundredweight computed by the formula using the nonfat dry milk price determined pursuant to Subparagraph (A)(8) of this Section, multiplied by a nonfat dry milk yield factor of 0.99, and the result multiplied by 8.7.

(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) per pound.**

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~four and ninety hundredths cents ($0.0490)~~ **six and forty-three hundredths cents ($0.0643)** 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) per pound.**

(2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~four and thirty-three hundredths cents ($0.0433)~~ **five and eighty-six hundredths cents ($0.0586)** per pound.