



December 7, 2011

Sandra Schubert, Undersecretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Dear Undersecretary Schubert:

On behalf of Hilmar Cheese Company, I am writing to request that the Department of Food and Agriculture deny the December 2, 2011 petition received from Western United Dairymen. The Department's August 22, 2011 decision made a significant change to the Class 4b whey factor in an attempt to balance market conditions and the impacts of this change are still being realized.

Three months later market conditions remain largely unchanged. Changing the 4b minimum prices again, in such a short order as Western United Dairymen has proposed, will introduce more regulatory uncertainty in the state. This changing business climate will do little to encourage or incentivize additional capacity growth in the state at a time when capacity has been leaving the state and growing in other regions.

The state's manufacturing capacity is an important consideration as California milk production continues to grow. Recent production reports indicate California milk production is growing faster than the national average. While milk production and cow numbers are growing, the state's cheese manufacturing capacity continues to decline. With continued growth and no significant capacity expansions on the horizon, we expect supply to exceed the state's manufacturing capacity in the Spring of 2012. This is not the right time to raise the regulated minimum price and further discourage capacity investment in California.

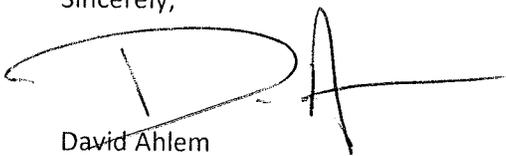
It is also important to recognize that California's primary cheese competitors out of state operate in unregulated areas (i.e. Idaho), or have the opportunity to opt out of Federal Milk Marketing Orders. These plants are not obligated to pay minimum prices. California processors do not have this option and thus regulated minimum prices need to remain at market clearing levels. Creating an artificially high minimum price by further increasing the 4b whey factor, will further encourage over supply and prolong periods of low prices. California's regulated minimum price should be set at market clearing values to avoid a reoccurrence of what occurred in 2008 when milk had to be shipped out of state or dumped at a significant cost to producers. Increasing the regulated minimum price will put California cheese processors at a competitive disadvantage to our primary competitors out of state.

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Furthermore, regulated minimum prices do not necessarily reflect the price producers actually receive for milk in the marketplace. Regulated minimum prices do not stop processors from paying more than minimum prices when market conditions merit. If allowed to function, market supply and demand conditions will drive premiums and establish a value for milk above the regulated price, which often occurs today. To attract, incentivize, and grow the supply of high quality, high component "cheese" milk, Hilmar Cheese Company has consistently paid premiums to its producers above and beyond the minimum regulated 4b since its inception. Hilmar Cheese Company is not alone and there are other examples of this in today's marketplace. These premiums flow directly to producers who have invested in facilities and genetics to supply the local market with the products it demands. If we increase the regulated minimum prices, our producers lose as their premiums fall. Market signals will be further distorted as the value created by these producers will be redistributed through the pool to others who have not invested in producing the milk the market wants. In our rapidly changing global marketplace, it is essential that we do not further distort market signals and we give processors the opportunity to incentivize producers to produce the type of milk the market wants.

In view of the very recent change to the 4b whey factor, the state's current milk supply and plant capacity conditions and the competitive environment for California cheese processors, now is not the time to further change the regulated minimum price in California. We respectfully request that the Western United Dairymen petition be denied.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Ahlem', with a long horizontal line extending to the right.

David Ahlem
VP of Dairy Procurement & Policy