

February 14, 2006

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The Honorable A.G. Kawamura
Secretary
Department of Food and Agriculture
1220 N Street Room A-400
Sacramento, CA 95814

RE: Request to deny the Petition by the Dairy Institute

Dear Secretary Kawamura,

Milk Producers Council respectfully requests that you deny the petition by the Dairy Institute for a hearing on the Class 4a and 4b milk pricing formulas. We have read the letter sent to you on this subject by Western United Dairymen and totally agree and endorse that letter.

The basic premise of the DI petition is that California producers are continuing to increase production and therefore it is your responsibility to make milk cheaper so that people will invest in building more cheese plants. MPC objects to this policy direction. Milk production in California and throughout the Western United States has been increasing over the past couple of years. Milk prices have been relatively high over this period. High market milk prices are a signal to producers that the market demands more milk. Producers respond to this signal. Market prices are now dropping significantly. The market is telling producers that the milk supply is adequate and production increases need to slow down. Now is no time for the State to use its regulatory power to artificially stimulate more plant capacity. That is for the market to do, not the government.

It is important to realize that California cheese plants already enjoy a lower regulated price for milk than their regulated competition operating in the Federal Order system. Over the past 13 months the California 4b price has averaged \$0.38 per cwt. less than the FMMO class III price. The FMMO system did just recently hold a hearing to consider changes to the class III price, but we are months away from knowing any results of that hearing. In addition, we know that California cheese makers do have some competition that is not subject to government regulation. However, those plants do have to pay a competitive price in their region to obtain a milk supply and we are aware that at least one of California's major unregulated competitors pays on a milk price formula that is designed to compete directly with the California 4b price. Therefore, any reduction in the 4b price will be matched by that competitor's milk suppliers and result in no advantage for the California plants.

California did employ a cheap milk policy throughout the 1980's and part of the 90's and remnants of it continue to this day. But when we launched this policy, our competition was Wisconsin, which was already in decline as a milk production area. California was eager to grow the dairy industry. Today the picture is much different. Our competition is stronger and more diverse. And California is no longer an easy, inexpensive or hospitable place to operate. We need a different strategy to handle the challenges of the future and going back to a cheap milk policy to stimulate the construction of commodity cheese plants is not the path to a successful future. We urge you to deny this petition.

Sincerely,

Geoffrey Vanden Heuvel
2nd Vice Chairman

cc: Kelly Krug, Director, Marketing Services - CDFA
David Ikari, Chief, Dairy Marketing Branch - CDFA