

March 8, 2012

Karen Ross, Secretary  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, CA 95814



Re: Petition for a Class 4b hearing from Western United Dairymen

Dear Secretary Ross:

We cannot be more disappointed to see that Western United Dairymen have already filed a petition to attack the Class 4b formula. It was certainly apparent that the Department was looking more toward a six-month reprise of this theme, even in the face of overwhelming economic evidence counter-indicating the appropriateness of such a modification to the 4b milk price. The veracity of the argument doesn't validate it. To ask the Department to get involved in such an obvious and pure price-enhancing move is ridiculous on its face. Why don't these producers merely go to their customers and raise their price?

Farmdale Creamery, again, respectfully requests the Department deny the above referenced petition. Arguably, the swing of the market-based pendulum is not currently in the producer community's best position however, and certainly, it will swing back. Frequent (and knee-jerk) changes to the regulated system in response to market conditions are disruptive to an orderly marketing plan. The pendulum will swing back in time and, historically, not too long a time. The August 2011 decision to raise the 4b Whey Factor from the \$0.25/cwt level to the current \$0.65/cwt level is still trying to find its way into the price of cheese for us.

The newly imposed 160% increase in the cost of the whey in milk must be allowed to work itself out as to how it would affect any development of our whey processing operation. The petition-proposed cost of whey in milk is unconscionable. We will not go forward with our plans to develop a higher-valued whey process should this cost be imposed on us. The projected return-on-investment will be nowhere near enough to mitigate the related risk. Raising the necessary capital to build an alternative to our current animal feed whey plant cannot happen if the rules keep changing. Our planning for a new process is futile if the underlying costs are going to dramatically change on a frequent basis - we will not be incented to follow through with any project if the entire fruit of that effort is taken away via this petitioned-for whey tax. Even worse, without a new whey process and without a stable whey factor, we will find ourselves in an unprofitable position and we'd better off quitting the cheese business outright; thus yielding back our one million pound-per-day milk utilization in cheese to find another home.

On risk-taking: we do not understand why the producer community seems to feel entitled to tax the processor community on a revenue stream in which producers bear virtually no risk-of-loss, make no capital investment and make no technological contributions nor expenditures for necessary marketing activities. This thinking continues to mystify.

Respectfully submitted,  
Michael W Shotts  
Vice President & General Manager

A handwritten signature in black ink that reads "Michael W Shotts". The signature is fluid and cursive, written over a white background.

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