

March 12, 2012



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

Dear Secretary Ross,

On behalf of Hilmar Cheese Company, Inc., I am writing to request that the Department of Food and Agriculture deny the March 2, 2012 petition received from Western United Dairymen and the "Coalition".

In making a strict comparison of the Federal Class III formula and the California 4b price, the petitioners fail to recognize two basic realities.

The first is that the California 4b price is a regulated minimum price. A minimum price does not prevent processors and cooperatives from paying more than the minimum for milk. The petitioners' comparison assumes all processors pay the 4b minimum price. This simply is not true. Many of California processors pay premiums above the 4b price. Hilmar Cheese Company, Inc. is one such example. Since its inception, Hilmar Cheese Company, Inc. has consistently paid premiums to its producers well above the 4b price. When the regulated minimum price is increased, many of our producers lose as their premiums fall. This was the outcome of the last hearing decision.

Secondly, the petitioners fail to recognize cheese processors out of state (our primary competitors) are not required to pay Class III even if they operate within the Federal Milk Marketing Orders. The Federal Milk Marketing Orders have created a mechanism for milk to clear the market by allowing manufactured milk be sold below the minimum. California does not have a like mechanism and all milk purchased from producers must be purchased at or above the minimum price. As a result, California's regulated minimum price must 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.

While acknowledging the current challenges in the producer community, we find the Coalition's request to be misplaced and misdirected. Many of the Coalition's cooperative members, who represent a majority of the milk in California, regularly negotiate supply agreements with buyers of 4b milk. This is the proper place for these discussions to take place. Instead of going to the marketplace and asking their customers for a higher price, they have chosen to delegate this responsibility to the California Department of Food and Agriculture. This is not the intended function of the regulatory system. The regulated minimum price should be a market clearing price, not a market making price.

Additionally, these petitions fail to acknowledge the current supply and demand dynamics in California. The marketplace is extremely oversupplied with milk and supply currently exceeds the state's processing capacity. California milk is currently leaving the state in significant quantities and some milk is being directed to calf ranches to stay under contract caps. This is a reality we have experienced firsthand.

We can choose to allow the markets to function or we can further distort market signals by raising the minimum regulated price. If the regulated price is left too low, the marketplace will demand premiums. If it is set at an artificially high level, processing capacity will be lost, further supply growth will be encouraged, and we will prolong periods of low prices.

In view of the very recent change to the 4b whey factor, the misplaced comparison of the 4b price with the Federal Class III price, and the state's current milk supply and plant capacity conditions, now is not the time to further change the regulated minimum price in California. We respectfully request that these petitions 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