



March 15, 2012

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

Dear Secretary Ross:

There are a myriad of reasons to deny the petitions filed by Western United Dairymen and the "Coalition." We participated in a hearing on this very issue less than nine months ago. A similar petition was filed and denied less than four months ago. Each time the fundamentals of the State's milk pricing system are challenged more uncertainty is created. Uncertainty retards the ability for the market to respond to changing conditions. Low prices inevitably are a consequence of high prices, which tend to stimulate production while inhibiting demand. If allowed, they will soon self-correct by invigorating demand and suppressing supply. When attempts are made to manipulate the market, the inevitable is simply postponed. 2011 delivered the highest overbase price in California in at least the past fifteen years (Exhibit A). While it is true that, on average, producers' costs rose that year as well, their margins improved dramatically over 2010, according to CDFA data. The State is currently experiencing a temporary surplus of milk as a result of that stimulus.

Cheese manufacturers' success is inextricably linked to the cost of their primary raw material, milk. It is often quoted that the cost of milk typically represents more than 80% of their total cost. A relatively small modification to the cost of milk can then have a major impact on a cheese maker's bottom line. California cheese plants are still struggling to adapt to the change implemented as of September 1, 2011, which to date has added \$0.40 per hundredweight to the cost of their milk. The simple apprehension over a further manipulation can have a real impact not only their business decisions but also on those of their stakeholders. The petitions would have a dramatic negative impact on the State's cheese industry if they were implemented. The cheese industry is a customer buying 43% of the State's milk. (Exhibit B)

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Much of the dissatisfaction expressed in producer groups' recent communication relates to the lack of correlation of the California 4b price with the Federal Order Class III price. This is an invalid comparison. Market supply and demand conditions, transportation costs, and operating expenses in the different regions bear no relation to each other. Perceived problems associated with the California system pale in comparison to those experienced in the archaic and unresponsive federal system. We presume this is in part why California has elected to operate its own system. The California system does in fact result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products but not necessarily national milk prices.

Producers, processors and the Department should come together to devise a new system that best serves the long term interests of all constituents and resist the temptation to continually fiddle with what has always been. We respectfully request that the aforementioned petitions be denied.

Very truly yours,



R. Gregory Dryer
Executive Vice President
Industry and Government Relations

RGD:ba

Enc.

Exhibit A

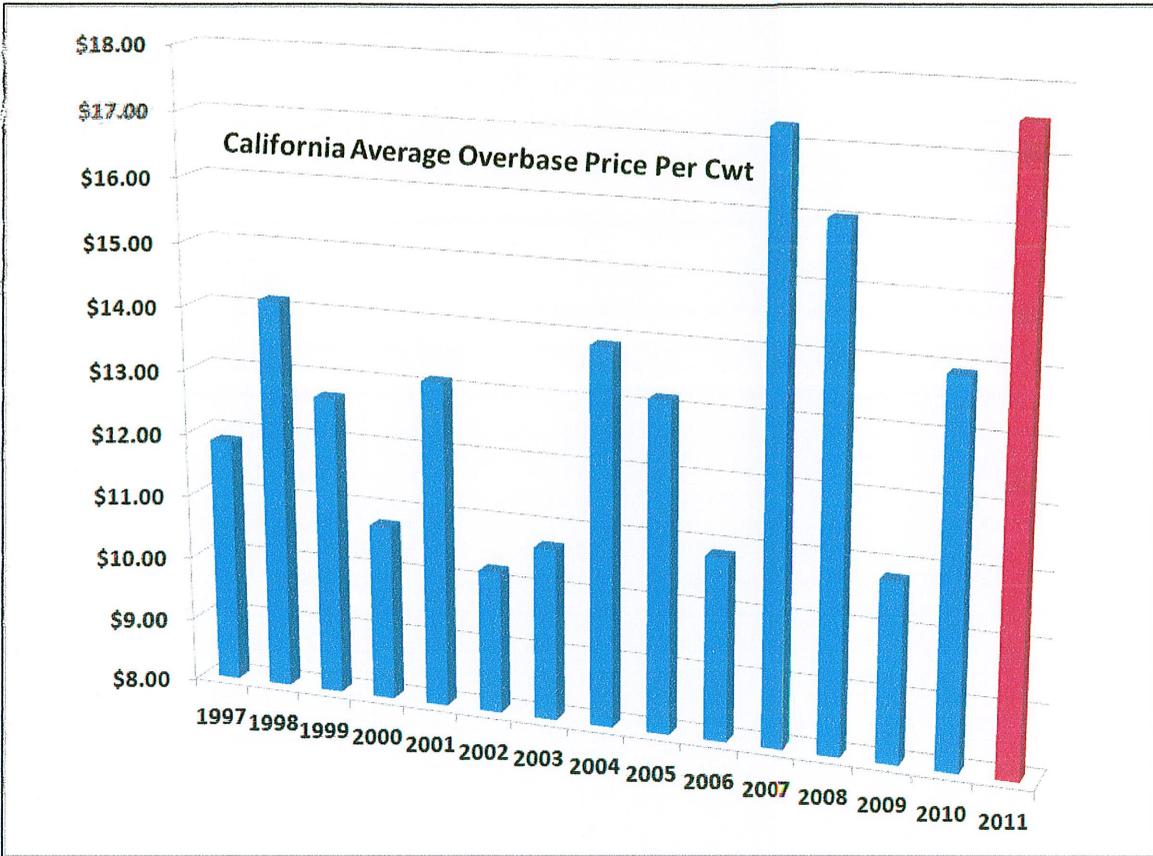


Exhibit B

