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August 6, 2012

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

Re: Petition for Emergency Hearing to Consider Uniform Increase to Class 1, 2, 3, 4a & 4b Prices on a Temporary Basis and to Consider Changes to the Whey Portion of the Class 4b Formula

Dear Secretary Ross:

Western United Dairy Men (WUD) respectfully requests the call of an emergency hearing to consider two changes. The first one is temporary: WUD requests a uniform increase to Class 1, 2, 3, 4a and 4b prices for a period of six months, October 2012 through March 2013. Specifically, we propose a fifty cent per hundredweight increase on all classes of milk. In addition, WUD proposes a permanent exemption from the whey component on the first one hundred thousand pounds of bulk milk produced daily. Our proposed changes are detailed below and changes to the Northern and Southern Stabilization and Marketing Plans are attached.

As you are well aware, California dairy families suffered severe economic hardships in 2009. As a result, many have gone out of business or acquired massive debt on top of eroded equity. A dairy price recovery in 2011 allowed some to improve their financial situation, but was not sufficient to recover the immense losses that were incurred. Dairy families are still in very precarious economic conditions. The recent drop in milk prices, combined with the escalating feed costs brought negative margins to the forefront once again. Dairy producers across the state wonder how they will make ends meet. The number of dairy farms going out of business continues to go up. A significant drought, plaguing a big part of the country, is having a large impact on feed prices. Soybean meal went up by \$47/ton and corn went up by over \$43/ton just in the last month¹. The futures market, with elevated prices until summer 2013 shows no reprieve in sight. September corn, which sold for \$6.74/bu a month ago, is now priced at \$8.10/bu. WUD is deeply concerned about the current plight of dairy families and while a fifty cent temporary price increase will not make dairy margins positive again, we believe that such an emergency price relief is required to at least "slow the bleeding". The Secretary's letter to industry dated July 20, 2012 showed she agrees with our concerns citing "the uncertain situation facing many dairy families who must buy feed in the open market is of great concern to me".

While we appreciated the Secretary's willingness to change the Class 4b formula despite the panel recommendation after the last hearing, we still believe it falls short of a fair method to price whey. Recognizing the panel's concern for smaller cheesemakers inability to process whey, we propose an exemption on the first 100,000 pounds of bulk milk processed daily. The exemption would apply to cheesemakers of all sizes, therefore it is not discriminatory in nature. In return, we request that the cap

¹ Quotes based on Western Milling

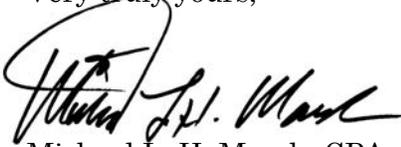
August 6, 2012

Page 2 of 5

of \$0.75 per hundredweight be removed on the sliding scale (see attached scale). We believe this would be a fair compromise that would allow dairy producers to get a fair return on the whey value while allowing smaller cheesemakers to stay in business. The purpose of our requested change is to focus the adjustment to those plants that process volumes of milk below a level that could support an investment in whey processing equipment. Specifically, we propose the implementation of a dry whey credit provided to Class 4b manufacturing plants to 264,480 pounds solids not fat monthly used in the production of cheese. The credit will be valued at the dry whey price as determined in Section 300(E)(1)(c) of the applicable Stabilization and Marketing Plan, divided by 8.7. Furthermore, we propose an alternative sliding scale that would allow the whey value to increase with the market value of dry whey, closer to the value generated by the Class III formula.

We thank you for immediate consideration of this petition and look forward to your quick response.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael L. H. Marsh". The signature is stylized and cursive.

Michael L. H. Marsh, CPA
Chief Executive Officer

cc: Candace Gates

Proposed changes to the Stabilization and Marketing Plans for Northern and Southern California:

Section 300

(E) The minimum price to be paid for components used for Class 4b shall be computed as follows, except as such procedures may be modified by Paragraph (H) of this Section:

(1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:

(a) The price per hundredweight computed by the formula using the Cheddar cheese price, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of nineteen and eighty-eight hundredths cents (\$0.1988), all multiplied by a yield factor of ten and two-tenths (10.2).

(b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of sixteen and thirty-five hundredths cents (\$0.1635), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).

(c) The price per hundredweight for the whey factor value, corresponding to the monthly average dry whey price, based on the following schedule:

Average Western Monthly Dry Whey per lb		Whey Value per cwt
Less than \$0.2000		\$0.0000
\$0.2000	to \$0.2099	\$0.0329
\$0.2100	to \$0.2199	\$0.0886
\$0.2200	to \$0.2299	\$0.1443
\$0.2300	to \$0.2399	\$0.2000
\$0.2400	to \$0.2499	\$0.2557
\$0.2500	to \$0.2599	\$0.3114
\$0.2600	to \$0.2699	\$0.3671
\$0.2700	to \$0.2799	\$0.4228
\$0.2800	to \$0.2899	\$0.4786
\$0.2900	to \$0.2999	\$0.5343
\$0.3000	to \$0.3099	\$0.5900
\$0.3100	to \$0.3199	\$0.6457
\$0.3200	to \$0.3299	\$0.7014
\$0.3300	to \$0.3399	\$0.7571
\$0.3400	to \$0.3499	\$0.8128
\$0.3500	to \$0.3599	\$0.8685
\$0.3600	to \$0.3699	\$0.9242
\$0.3700	to \$0.3799	\$0.9800
\$0.3800	to \$0.3899	\$1.0357
\$0.3900	to \$0.3999	\$1.0914
\$0.4000	to \$0.4099	\$1.1471
\$0.4100	to \$0.4199	\$1.2028
\$0.4200	to \$0.4299	\$1.2585
\$0.4300	to \$0.4399	\$1.3142
\$0.4400	to \$0.4499	\$1.3699
\$0.4500	to \$0.4599	\$1.4256
\$0.4600	to \$0.4699	\$1.4814
\$0.4700	to \$0.4799	\$1.5371
\$0.4800	to \$0.4899	\$1.5928
\$0.4900	to \$0.4999	\$1.6485
\$0.5000	to \$0.5099	\$1.7042
\$0.5100	to \$0.5199	\$1.7599
\$0.5200	to \$0.5299	\$1.8156
\$0.5300	to \$0.5399	\$1.8713
\$0.5400	to \$0.5499	\$1.9270
\$0.5500	to \$0.5599	\$1.9828

Average Western Monthly Dry Whey per lb		Whey Value per cwt
\$0.5600	to \$0.5699	\$2.0385
\$0.5700	to \$0.5799	\$2.0942
\$0.5800	to \$0.5899	\$2.1499
\$0.5900	to \$0.5999	\$2.2056
\$0.6000	to \$0.6099	\$2.2613
\$0.6100	to \$0.6199	\$2.3170
\$0.6200	to \$0.6299	\$2.3727
\$0.6300	to \$0.6399	\$2.4284
\$0.6400	to \$0.6499	\$2.4841
\$0.6500	to \$0.6599	\$2.5399
\$0.6600	to \$0.6699	\$2.5956
\$0.6700	to \$0.6799	\$2.6513
\$0.6800	to \$0.6899	\$2.7070
\$0.6900	to \$0.6999	\$2.7627
\$0.7000	to \$0.7099	\$2.8184
\$0.7100	to \$0.7199	\$2.8741
\$0.7200	to \$0.7299	\$2.9298
\$0.7300	to \$0.7399	\$2.9855
\$0.7400	to \$0.7499	\$3.0413
\$0.7500	to \$0.7599	\$3.0970
\$0.7600	to \$0.7699	\$3.1527
\$0.7700	to \$0.7799	\$3.2084
\$0.7800	to \$0.7899	\$3.2641
\$0.7900	to \$0.7999	\$3.3198
\$0.8000	to \$0.8099	\$3.3755
\$0.8100	to \$0.8199	\$3.4312
\$0.8200	to \$0.8299	\$3.4869
\$0.8300	to \$0.8399	\$3.5427
\$0.8400	to \$0.8499	\$3.5984
\$0.8500	to \$0.8599	\$3.6541
\$0.8600	to \$0.8699	\$3.7098
\$0.8700	to \$0.8799	\$3.7655
\$0.8800	to \$0.8899	\$3.8212
\$0.8900	to \$0.8999	\$3.8769
\$0.9000	to \$0.9099	\$3.9326
\$0.9100	to \$0.9199	\$3.9883
More than \$0.9200		\$4.0000

(2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.

(3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).

(4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(6) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey – West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.

(8) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.

(9) In the event that the Dry Whey – West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey – West Mostly price used in the prior month's calculation of the Cheese hundredweight price.

(10) For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 4b price shall be increased by the following amounts:

(a) For milk fat, three and two-tenth mils (\$0.0032) per pound.

(b) For milk solids-not-fat, one and three-tenths mils (\$0.0013) per pound.

(F) The minimum price to be paid pursuant to Paragraph (A) of this section shall be computed by the Dairy Marketing Branch and furnished to handlers not less than ten days prior to the effective date of each price change.

(G) The minimum prices to be paid pursuant to Paragraphs (B), (C), (D) and (E) of this section will be computed by the Dairy Marketing Branch and furnished to each handler each month.

(H) The minimum prices for components used for Class 1, Class 2, Class 3, Class 4a, and Class 4b, as set forth respectively in Paragraphs (A), (B), (C), (D), and (E) of this Section, shall be increased only for the period October 1, 2012 to March 31, 2013 by the following amounts:

- (1) For Class 1 milk fat, five and one-tenths mils (\$0.0051) per pound.**
- (2) For Class 1 milk solids-not-fat, four and twenty-sixth hundredths cents (\$0.0426) per pound.**
- (3) For Class 1 milk fluid carrier, one and three-tenths mils (\$0.0013) per pound.**
- (4) For Class 2 and 3 milk fat and milk solids-not-fat, four and one tenth cents (\$0.041) per pound.**
- (5) For Class 4a and 4b milk fat and milk solids-not-fat, four and one tenth cents (\$0.041) per pound.**

Section 300.3

(G) Each handlers' plant located in California purchasing milk for Class 4b utilization in the current month may deduct a dry whey credit for quantities of solids not fat processed equal to the value determined in Section 300(E)(1)(c), divided by 8.7, not to exceed 264,480 of solids not fat per month.

Proposed Language Changes to the Pooling Plan

Article 9

Section 900.

The gross pool obligation of each handler for each of the plants or for a cooperative association acting as a handler under Paragraph 105(c) shall be computed as follows:

Add new paragraphs

(e) Deduct from the amounts calculated in Section 900 above the dry whey credit determined pursuant to Section 300.3 (G) of the applicable Stabilization Plan for plants operated by the handler.

(f) Deduct any dry whey credit earned by non pool plants to which Class 4b milk has been supplied by a pool handler. Any such dry whey credits must be supported by documentation that identifies each non pool plant given the credit and supported by an agreement letter between the pool handler and the non pool plant that verifies that the non pool plant is eligible for the credit and that the non pool plant is the sole report of said credit.

Section 901. The total pounds of milk in each class and the pool value thereof shall be computed by the secretary as follows:

Add new paragraph

(d) For the current month:

- (1) Multiply the sum of the pounds of solids not fat that are eligible for the dry whey credit pursuant to Section 300.3(G) of the appropriate Stabilization and Marketing Plan times the dry whey credit as determined in Section 300.3(G); and**
- (2) Deduct from the total value of the Class 4b solids not fat, the amount calculated under Subparagraph(1). The resulting value for each class shall be utilized in computing the prices under Section 902, 903 and 904 or 906.**