

February 9, 2017

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

Re: Dairy Institute petition for a hearing to consider amendments to the Class 4a and Class 4b pricing formulas in the Stabilization and Marketing Plans for the Northern and Southern California Marketing Areas

Dear Secretary Ross,

California Dairy Campaign, Milk Producers Council and Western United Dairymen respectfully request that the petition submitted by the Dairy Institute be denied. The Dairy Institute seeks adjustments to the manufacturing cost allowances for nonfat dry milk, cheddar cheese, and butter. The requested adjustments will result in a substantial reduction in producer prices. The timing could not be worse for the call of a hearing that seeks to lower producer prices for two main reasons outlined below.

- 1) A brief review of recent history reveals that producers have already borne a significant reduction in their regulated minimum price, leading to a significant loss of milk and dairies in the state. California milk production was in decline for more than 20 months and has increased only slightly in recent months, but the future remains uncertain. Given current conditions in the industry, the years ahead will undoubtedly be more challenging for California producers. Economic and regulatory pressures are mounting on producers in the state, and no reprieve is in sight. Though we acknowledge that processors are facing challenges, we must point out that the dairy families of California are already familiar with such pressures. In addition to the past two years of milk prices falling short of the cost of production, current and proposed environmental and labor regulations placed upon producers will lead to added costs. With no way to pass along added costs, dairy producers will be left with no option but to take on additional debt or try to find alternative funding sources in order to survive. Lending institutions have grown weary of California farm families' financial situation. For some, these additional costs will likely result in the demise of more dairy operations.
- 2) As you are aware, during the past few years the California dairy industry spent countless hours and much capital working on a proposal for a California Federal Milk Marketing Order (FMMO). The results of said hearing have not been announced and that process is not yet completed. Allowing a manufacturing cost allowance hearing in California would undermine that extensive process. California dairy cooperatives invested a tremendous amount in developing a proposal for California producers' best interest. That proposal was supported by the three trade associations in the state, with unparalleled conviction. The

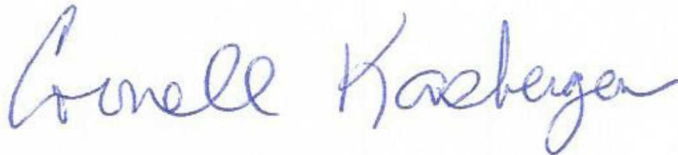
objective was clear: to bring California prices in closer alignment with other federal milk marketing orders. Considering an increase in the manufacturing cost allowances would clearly go against that objective. Coops and producers alike have been working so hard toward this goal in recent years; it is imperative we see this process through before considering moving California prices further away from FMMO.

California dairy producers are routinely the lowest paid of any regulated dairy region and an increase in the make allowances would further depress mailbox prices, leading to dairy closures or dairies moving out of state.

We respectfully request that action now be taken to protect the viability of producers by recognizing that this is an inappropriate time to call a Class 4a and 4b hearing. We thank you for your careful consideration of this matter.

A handwritten signature in black ink, appearing to read "Joe Augusto".

Joe Augusto, President
California Dairy Campaign

A handwritten signature in blue ink, appearing to read "Cornell Kasbergen".

Cornell Kasbergen, Chairman
Milk Producers Council

A handwritten signature in blue ink, appearing to read "Frank Mendonsa".

Frank Mendonsa, President
Western United Dairymen