EXHIBIT
PENGAD 800-631-6989
37

PUBLIC HEARING

STATE OF CALIFORNIA

DEPARTMENT OF FOOD AND AGRICULTURE

DAIRY MARKETING BRANCH

DEPARTMENT OF FOOD AND AGRICULTURE

1220 N STREET

AUDITORIUM

SACRAMENTO, CALIFORNIA

WEDNESDAY, OCTOBER 10, 2007

9:05 A.M.

TIFFANY C KRAFT, CSR, RPR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 12277

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345 this operation, even though it's one piece of property one building. Any thoughts there?

MR. GHILARDUCCI: I wouldn't have any answers on that with this.

PANEL MEMBER SHIPPLEHOUTE: Maybe think about that and address that in your post-hearing brief. Thank you.

HEARING OFFICER LOYER: Well, hearing no further questions from the panel, we're going to go ahead and adjourn for lunch. See everybody back here at 12:30. And so we are off the record.

(Thereupon a lunch recess was taken.)

HEARING OFFICER LOYER: The hearing will now come to order.

Once again, please turn off your cell phones or set them to vibrate. And we are going back on the record.

The next to testify is Land O'Lakes.

I'm marking the Land O'Lakes exhibit Tom Wegner as Exhibit 53.

(Exhibit marked.)

HEARING OFFICER LOYER: Okay. Mr. Wegner, would you please state and spell your name for the record.

MR. WEGNER: I'm Tom Wegner, T-o-m, W-e-g-n-e-r.

HEARING OFFICER LOYER: Okay. And, sir, do you promise to tell the truth, the whole truth, and nothing but the truth today?

MR. WEGNER: I do.

HEARING OFFICER LOYER: And are you testifying today on behalf of an organization, just for the record?

MR. WEGNER: Yes, I'm testifying on behalf of Land O'Lakes, Inc. And our directors have -- western directors have reviewed our position and support it.

HEARING OFFICER LOYER: Okay. Thank you.

You may proceed.

MR. WEGNER: Ms. Hearing Officer and members of the panel. My name is Tom Wegner and I'm here to testify on behalf of Land O'Lakes. My business address is 4001 Lexington Avenue North, Arden Hills, Minnesota. My current title is Director of Economics and Dairy Policy. We thank the Department for promptly calling this hearing to address these issues of critical importance to all of our dairy producer members.

Land O'Lakes is a dairy cooperative with 3,100 dairy farmer member-owners. The cooperative has a national membership base, whose members are pooled on the California State Program and six different federal orders.

Land O'Lakes members own and operate several cheese, butter powder, and value-added plants in the upper Midwest, East, and California. Currently, our 275 California member-owners supply us with over 16 million pounds of milk per day that are processed at our Tulare and Orland plants.

Land O'Lakes is very concerned about the apparent lack of manufacturing capacity in California and believes that the Department needs to make changes to the Class 4a and 4b formulas to encourage investment in the development of additional manufacturing capacity in the state.

I'm here to testify in support of our alternative proposal filed with the Department on September 25th, 2007, involving the make allowances and/or prize adjusters for butter, nonfat dry milk, cheese, whey based upon the weighted average of cost information and other data supplied by the Department.

Proposal summary. Regarding the 4a formula, LOL recommends that the Department maintain the current butter make allowance of 15.6 cents per pound. Concerning the price adjuster on butter, we recommend that the Department use the simple difference between the Chicago Mercantile Exchange butter price and the prices received by California processors for twelve months ending August 2007. We recommend increasing the f.o.b. price adjuster for butter from the current level of 1.68 cents to 2.8 cents.

For nonfat dry milk, Land O'Lakes recommends that the make allowance be increased from the current 16 cents per pound to 16.64 cents per pound, which matches the weighted average manufacturing costs for nonfat dry milk in the most recent CDFA cost survey.

Regarding the 4b formula, LOL recommends the Department increase the cheese make allowance from 17.8 cents to 19.88 cents, reflecting the weighted average manufacturing cost for cheese from the most recent CDFA cost survey. We recommend no changes in the f.o.b. price adjuster for cheese since the f.o.b. price adjuster matches the most current 24-month difference between the CME price and the price that's received by California cheese plants.

We recommend that the dry whey make allowance be based upon the difference between the current dry whey make allowance and the current make allowance for nonfat dry milk. The current difference between the two make allowances is 10.7 cents (26.7 cents whey make allowance minus 16 cents nonfat dry make allowance equals 10.7 cents). We recommend that this 10.7 cent difference get added directly to the weighted average manufacturing cost for nonfat dry milk of 16.64 cents to arrive at the recommended whey make allowance of 27.34 cents per pound.

We have observed that the costs of manufacturing nonfat dry milk and dry whey have increased as costs common to both processes have risen. Some of these common costs include energy, bagging, labor, et cetera. As stated earlier, we recommend increasing the nonfat dry make allowance to 16.64 cents per pound, matching the weighted average manufacturing costs for nonfat dry milk in the host recent CDFA survey. We further recommend that the Department use the difference that currently exists between the make allowances for dry whey and nonfat dry milk, amounting to 10.7 cent per pound, and apply that difference to the recommended make allowance for nonfat dry milk of 16.64 cents, to arrive at the recommended whey make allowance of 27.34 cents per pound, an increase of .64 cents per pound.

And the specific changes and proposed language, I will not read through. There they are for the record.

Justification for the proposal. According to departmental data, the current make allowance for butter of 15.6 cents covered the total operating costs, including a 6.48 percent ROI, of nearly two-thirds of the butter manufactured in California during 2006. Specifically, a make allowance of 15 cents covered 58 percent and a make allowance of 16 cents would cover 61 percent of the butter manufactured. Land O'Lakes feels that covering roughly 60 percent of butter processed with the current make allowance of 15.6 cents is adequate and consistent with previous departmental decisions.

By way of contrast, the current make allowance for nonfat dry milk of 16 cents covered only 28 percent of the nonfat dry milk processed in California during 2006. Increasing the nonfat dry milk make allowance to 16.64 cents matches the weighted average cost for nonfat dry milk in the most recent CDFA cost survey and will increase the volume coverage to a more acceptable level that is consistent with previous departmental decisions.

According to the Department's data, the current cheese make allowance of 17.8 cents did not cover the total costs of any cheese plants in California during 2006. Increasing the cheese make allowance to 19.88 cents would have covered just under two-thirds of the cheese processed in California. This level of coverage is consistent with previous decisions of the Department.

The Department also provided information about the approximate return on investment to cheese plants under various possible cheese make allowances. Under the current cheese make allowance of 17.8 cents, cheese plants earn a return on investment of a negative 8.64 percent. Clearly, the current levels of the cheese make allowance do not provide adequate financial incentives for cooperative cheese processors and their member investors or proprietary operators to continue running their plants, much less invest in new or expanded ones. Land O'Lakes recommends that the Department set the cheese make allowance at 19.88 cents to improve the return on investment from operating a cheese plant.

The department could not provide estimates of the volume covered under different cost allowances of manufacturing dry way due to confidentiality constraints. They did provide data revealing that under the current dry whey make allowance of 26.7 cents, the approximate return on investment for dry whey powder plants was less than 4.05. Increasing the whey make allowance to 27.34 cents per pound would have only increased the ROI to dry whey plants to 5.41 percent.

Neither the ROI from the processing of dry whey powder, nor the ROI on the processing of cheese resulting from adoption of our two proposals will guarantee future investments in cheese plants or whey processing facilities. But the updated make allowance should provide some immediate and much needed financial relief to all cheese plants regardless of size.

As stated previously, we observed that the costs of manufacturing nonfat dry milk and dry whey both increase as costs common to both processes rise. Some of these common costs include energy, bagging, labor, et cetera. We propose that the Department use the established difference between the make allowances for dry way and nonfat dry milk that currently exist, amounting to 10.7 cents per pound, and apply that difference to the recommended make allowance for nonfat dry milk of 16.64 cents to arrive at the proposed whey make allowance of 27.34 cents per pound.

LOL understands that the Department will no longer have the ability to report a weighted average cost for dry whey powder since the number of plants reporting will drop to two, thereby preventing the Department from releasing any cost data publicly. We propose this method of calculating the dry whey make allowance to allow the Department some additional time to analyze how to estimate the cost of processing dry whey since the number of plants participating in the survey may prevent them from publishing a cost of production figure. Perhaps the Department may want to consider using the percentage increase in nonfat dry milk processing costs or a form of indexing to update the whey make allowance.

To clarify, our current proposal would add 10.7 cents to the powder make allowance to arrive at a make allowance for whey. Assuming that the Department adopted our proposed increase in the make allowance for powder and for whey as a result of this hearing, then with an indexing approach we would expect, as a result of future hearings, that the absolute difference between the powder make allowance and the whey make allowance of 10.7 cents would become larger as time goes on. Such a result would make economic sense because of the fact that more water has to be removed from whey than from skim to make powder. We are confident that the Department will develop an alternative method of calculating an appropriate value for dry whey in the 4b formula.

Capacity issue. As you know, California milk production has been increasing rapidly in 2007. Through August 2007, milk production has increased 4.7 percent over 2006. If we project that milk growth for the entire 2007 calendar year, we'll have added roughly four billion pounds of additional milk. On a daily basis, this increase amounts to about five million pounds per day, which nearly equals the initial capacity of the new CDI plant.

With this volume increase, it is not surprising to find that the state's plant capacity is being pressured. We have heard reports of distressed milk getting dumped because of plants being too full to process the additional milk.

Loss of cheese plant capacity. Meanwhile, there has been a loss of cheese plant capacity in California. The list of plant closings and recently announced plans for closing include:

In 2002, the Suprema plant, that handled 26 loads per day, closed.

In 2003, the Sorrento plant, that handled 32 loads per day, closed.

In 2005, the Gustine plant, that handled 30 loads per day, closed.

The DFA plant, that handles 80 loads per day, is scheduled to close by early 2008.

The total plant capacity lost amounts to 168 loads per day or about 8.5 million pounds of milk per day. This is roughly equal to the capacity of two plants the size of the CPI plant in Tulare. This volume of lost cheese plant capacity is significant in light of the continued growth of California's milk supply. Any additional loss in plant capacity would put even more stress on the milk processing sector. The loss of additional cheese plant capacity is very possible in light of the recent default of the F&A cheese plant that receives approximately 30 loads per day.

The impact of the inadequacy of the cheese make allowance has already been realized in the decisions by both Glanbia and Hilmar to build new cheese plants outside of California. These two plants, in New Mexico and Texas, would have provided California with badly needed manufacturing capacity. The industry needs a change in policy to encourage new cheese construction in California rather than in neighboring states.

Other proposals. We agree with the Dairy Institute proposals to increase the cheese make allowance to the cost-justified level of 19.88 cents, to increase the nonfat dry milk make allowance to the cost-justified level of 16.64 cents, and to increase the f.o.b. butter price adjuster to 2.8 cents per pound.

We do not support the proposal of the petitioners or the Dairy Institute to completely remove the dry whey cost factor from the 4b formula. Although we understand the detrimental effect that the current dry whey cost factor has had on cheese plants, we strongly urge the Department to consider the need to balance the producer benefits from rising whey prices against the costs of rising whey prices to cheese processors. Whey clearly has value in the market, but we need a realistic and balanced approach to approximating that value in the 4b pricing formula.

We oppose setting the dry whey make allowance on the nonfat dry milk make allowance plus three cents as proposed by the Alliance, the MPC, and Western United. There's no cost justification for lowering the whey make allowance to 19 cents. The resultant increase in the 4b price of 48 cents as estimated by the CDFA over the past five years makes no sense in light of the current financial situation of California cheese plants. We need changes to increase the cheese manufacturing capacity in the state, not to discourage it.

As shown above, milk production trends point to the dramatic need for additional manufacturing capacity. The Alliance, et al., proposal would strongly discourage any additional investment in new plant capacity for cheese and would seriously threaten the existing cheese manufacturing capacity. Their proposal to maintain the current make allowance for cheddar at 17.8 cents per pound and the information provided by the Department clearly shows that zero percent of the volume is covered by the current make allowance, thereby guaranteeing a loss for cheddar operations in the state.

The Department's information also shows an inadequate return on investment in whey operations with the current make allowance of 26.7 cents per pound. Yet the Alliance recommends a reduction in the make allowance for whey to 19 cents per pound. Based upon the cost analysis of whey operations in California for 2005 and for 2006, there's no cost justification for the reduction of the whey make allowance to 19 cents. Lowering the whey make to the levels recommended by the Alliance, et al., would make a bad situation even worse for small cheese plants that do not have facilities to process their whey. We do not support the dry whey credit or the implementation of a snubber on the dry whey component of the 4b formula as proposed by the Alliance, et al.

The Department's cost data shows that the whey make allowance should be raised. LOL feels that updating the cheese make allowance and the dry whey make allowance will more effectively address the needs of both small and large cheese plants. The Alliance, et al., approach of giving cost relief to just the very smallest cheese plants falls far short of what is needed to address the capacity issue in California. We need the development of additional large cheese and other manufacturing facilities to be able to handle the growing milk supply in the state.

We do not support the CDI proposal to implement a plant processing capacity credit. While this idea conceptually has some merit, it lacks the detail and definition necessary to fully evaluate its impact. If this proposal is implemented, we strongly recommend that the credit not apply to plants currently under construction but only to new plants.

The issue of inadequate plant capacity to process our state's growing milk supply continues to challenge the dairy industry. We feel that using the market-wide pool to finance the expansion or construction of an individual cooperative's or proprietor's plant is not equitable, especially to those producers who would not have access to the expanded or new plant. Additional questions need to be addressed. For example, how would a processor prove that they have added new processing capacity? How should the Department determine what is the appropriate level of credit? How long should the credit be in effect? Should producers who have not increased their production or plan to increase their production contribute?

We do not support the DI proposal to increase the f.o.b. cheese price adjuster to 2.7 cents.

We do not support the Humboldt Creamery alternative proposals to increase the make allowances above levels that are cost justified by the weighted average costs collected by the Department. We oppose their two-tiered approach to the make allowance issue. For the second tier, they advocate a 17.8 cents make allowance for cheese even though departmental evidence clearly shows that zero volume is covered by the 17.8 cents make allowance. Furthermore, a two-tiered approach would tend to discourage the development of the more efficient plant operations in California.

Additionally, the Humboldt and CDI proposals may violate the Food and Agricultural Code Section 61805(b), which states, "In determining minimum prices to be paid by handlers, the Director shall endeavor under like conditions to achieve uniformity of cost to handlers for market milk within any marketing area."

We advocate the adoption of the Land O'Lakes proposal for make allowance and price adjusters for butter and powder. We do not support the make allowance nor the price adjusters recommended by CDI.

Conclusion. Land O'Lakes manufactures butter, powder and cheese. Our recent experience within the California State Program is that the net returns for butter and powder are significantly higher than for cheese. Land O'Lakes is urging the Department to reflect a balanced approach. The returns on investment for cheese and for butter-powder operations should be very similar, and both need to be adequate based on economic factors within the marketplace. Based upon our experience at Land O'Lakes, that is not the case today. Returns on butter-powder operations are clearly superior to returns on cheese.

Land O'Lakes has deep concerns about inadequate manufacturing capacity in the state. The evidences clearly shows that milk production in California is growing rapidly. We urge the Department to take steps to encourage additional manufacturing capacity in butter, powder and cheese. The current make allowances for cheese, nonfat dry milk and whey and the price adjuster for butter are inadequate to maintain, much less increase, manufacturing capacity in the state. The proposal by Land O'Lakes is a reasonable one for producers and for manufacturing plants.

Currently, California's manufacturing plants are operating at full capacity to process the continued growth in milk production. If long-term returns to producers' investments in cheese plants do not improve, more cheese plants may cease operations, putting even more stress on the remaining plants.

This concludes my testimony. And I would like the opportunity to file a post-hearing brief.

Thank you.

HEARING OFFICER LOYER: Granted.

Are there any questions from the panel?

PANEL MEMBER GOSSARD: On page 4 of your testimony, you state you don't support the DI proposal for increasing the f.o.b. adjuster to the difference between -- the 24-month difference between the CME and the California prices.

Why did you not support -- why do you not support their proposal?

MR. WEGNER: We felt that the current f.o.b. adjuster was adequate.

PANEL MEMBER GOSSARD: In top of page 7, you say whey clearly has value in the market but we need a realistic and balanced approach to approximating that value in the 4b pricing formula.

Could you expand on what might be a realistic and balanced approach?

MR. WEGNER: Well, we haven't given a significant amount of thought to that, to be honest with you. It's a problem that we proposed an opportunity to spend a little more time on coming up with another idea, because we sense that what you currently got is not going to be able to continue it with a survey shrinking down to two plants.

So I don't have any silver bullet right now, Tom.

PANEL MEMBER GOSSARD: So basically your statement is, as I understand it, the current formula is not going to work into the future but you don't have a specific recommendation for replacement?

MR. WEGNER: We don't.

PANEL MEMBER GOSSARD: Okay. On page 4 you talk about the volume covered for the various manufacturing cost allowances that you're recommending. And the volumes range between 60 and 80 percent.

Do you feel in general that a range of plant volumes between 60 and 80 percent give adequate coverage for processing?

MR. WEGNER: We do.

PANEL MEMBER GOSSARD: Do you have any specific recommendations on what sort of range in ROIs would be appropriate?

MR. WEGNER: We don't at this point. We do know it needs to be positive.

PANEL MEMBER GOSSARD: The third paragraph on Page 2 you mention a lack of manufacturing capacity.

Do you have any quantitative information that you could supply either now or in your post-hearing brief that is -- is there distressed milk being left on the farm, used as animal food, going to other plants outside of California, what sort of prices they're getting for that milk?

MR. WEGNER: I don't have any specific insights beyond what I've picked up in conversations. Within our system, within Land O'Lakes, we're managing our supply with our customers and our available capacity.

So I can't offer any more specifics in terms of distressed loads or their price, Tom.

PANEL MEMBER GOSSARD: Thank you.

PANEL MEMBER IKARI: One question.

Have you been offered milk that is distressed as Land O'Lakes in California?

MR. WEGNER: I'll need to follow up on that, David. I don't have anything on my fingertips about that. If you'd like, I could follow up to see if we do have any reports and what that might be.

You'd be interested in volumes and prices?

PANEL MEMBER IKARI: Well, anything that you can cite. You don't have to -- perhaps don't have the specifics. But rather than just a vague statement that "we understand milk is leaving the state," any kind of citations of when it occurred and by whom it occurred, that would be helpful.

MR. WEGNER: But as I understood your question, you were also interested if we were offered distressed milk?

PANEL MEMBER IKARI: Right, yes.

MR. WEGNER: I will follow up with that.

PANEL MEMBER IKARI: In listening to your testimony, I was struck by -- and Tom kind of touched on it. You clearly indicated what you're not in favor of, what you don't support. You're not ready to talk about what we should do long term. But in terms of that question about a fair -- no, a realistic and balanced approach to approximate the value of 4b pricing formulas, it sounds like -- and correct me if I'm wrong -- but it sounds like you oppose the concepts that the small cheese processors eliminate whey, you oppose the concept that producers have offered about the credit.

So as a hearing panel, what are you in favor of that we should do with the issue of dry whey today?

MR. WEGNER: Well, I guess the way we're looking at it is we're proposing to buy some time with the way that we come up with the make allowance for whey of the 10.7 cent fixed margin to the updated nonfat dry milk make allowance. What to do with whey. Like I mentioned before, I don't have any silver bullet necessarily. But it seems to me there needs to be some types of -- way of providing incentive to the processor to market the whey, while also returning some value to the producer.

We don't have a proposal that we put forth a year ago that would have shared the contribution of whey to the 4b formula. We don't have that. I know we're not at the point of being able to say we'd support that. But I think those types of opportunities where you're doing some sharing of the value might be something for the Department to take a harder look at.

PANEL MEMBER IKARI: Do you think that there's a possibility that there's another approach, another alternative where some value for dry whey could be reflected, and it's a more steady constant range than the current formula where producers will get some value but yet it would not create financial, you know, ruin for small cheese processors? Is that a possibility?

MR. WEGNER: Well, I guess you have to look at what we're dealing with in terms of the end-product pricing box that we find ourselves in here, that the Federal Order's in as well. When you have run-ups like we've seen in whey pricing and comparable run-downs, that's a variability that gets transmitted to the pay price, as you guys well know.

So I'm not quite sure -- I guess I'd need to see more detail behind your question about what would stabilize, if I hear what you're saying, sort of that return from whey? The markets are what the markets are. But I think those have much -- there's other factors that are entering into why the markets are where they are. How you connect that volatility to the producer pay price formula is another issue. But if you go with product pricing, you're going to have that volatility.

PANEL MEMBER IKARI: Am I incorrect in interpreting your testimony as meaning, if the Department -- if the current formula stayed intact and Land O'Lakes increased its production, are you kind of indicating to us that you're going to make investments in butter and powder and not cheese?

MR. WEGNER: At this point, that's what looks the best, if the numbers are what the numbers are in terms of return on investment. And I'm not speaking out of school here, but that's what the numbers would lead a rational plant decision maker to do I think.

PANEL MEMBER IKARI: Hiram, do you have a question?

PANEL MEMBER DOEGEY: No. Thanks for asking them all for us.

(Laughter.)

PANEL MEMBER SHIPPLEHOUTE: I do.

On page 6 you have a list of plants that have closed. Was that meant to be an all-inconclusive list of cheese plants that have closed in the last few years?

MR. WEGNER: Not meant to be all-inconclusive as much as to point out the rough magnitude of the losses in terms of capacity.

PANEL MEMBER SHIPPLEHOUTE: And page 9 you talked about the California manufacturing plants operating at full capacity currently. We had some testimony from cheese operators earlier that indicated they are not running at full capacity.

Do you have any comment on that?

MR. WEGNER: I was not aware of that actually.

PANEL MEMBER SHIPPLEHOUTE: No other questions.

PANEL MEMBER IKARI: I have a follow-up question there.

On Page 2 of your testimony you -- when you're talking about the price adjuster for butter, you're using a period of twelve months. Yet on the price adjuster for cheese you're using a period of 24 months.

Can you justify the difference in approaches?

MR. WEGNER: Well, I think that we looked at that twelve month and thought it was the most current and felt that that was more appropriate for right now.

What I said previously on the 24 month is we felt that was adequate.

The difference between the two periods I can't speak to any more detail than just this is how it mapped out in our thinking in terms of the resultant impact on the 4b and 4a prices.

PANEL MEMBER IKARI: Should the Department try to follow the same process or procedure in establishing the price adjuster? Or do you think it's appropriate to go ahead and have different time periods?

MR. WEGNER: Well, I think consistency is important from your perspective. We had to look at the sum total of the impacts of our proposals and this is where we came up.

PANEL MEMBER IKARI: If I can ask one other question.

In terms of the make allowance covering volume of product process, how narrow or how wide a range do you think that, say, the butter make allowance, the cheese make allowance, and the powder make allowance should be in covering the volume? How much discretion should there be or how much difference should there be between those individual commodities?

MR. WEGNER: Between each individual commodity. I think what I spoke in response to Mr. Gossard's question was that 60 to 80 percent seemed like a range that was consistent with how you guys -- how the department had made decisions previously in terms of volume coverage.

PANEL MEMBER IKARI: What I'm trying to do is take that comment and then say, you know, your other comment where you indicated you would make investment.

So I guess my question is, if we covered 60 percent of the volume in cheese and covered 80 percent of the volume in butter, would Land O'Lakes still say, "Well, we're going to make the investment in butter"?

MR. WEGNER: It depends on what the makes would be, David, in part. I mean realize there's many more factors that come into play rather than the regulatory price. Milk supply and actual cost of milk. But whether 60 or 80 percent of the volume, I don't think is as important as the level of make allowance relative to our own costs. So that would be the factor that would be more important to us, more key.

PANEL MEMBER IKARI: Thank you.

HEARING OFFICER LOYER: Any further questions from the panel?

PANEL MEMBER SHIPPLEHOUTE: Yes, I have a question.

On page 8 you make reference to Code Section 61805(b) and you indicate that the proposal may violate that code section.

If I read the rest of that code section, it says, "However, no minimum price is established or determined under this chapter may be invalid because the informative cost to handlers for market milk in an area is not achieved."

With the rest of that section -- and I truncated a little bit more. But with the rest of that code section in context there, do you still think that those proposals may violate that code section?

MR. WEGNER: That's why we put the word "may" in there, Don. We're sort of looking to you guys -- to the Department again to provide some guidance. We offered that more as a reminder to take a look at that. I'm not here to make a judgment on that.

PANEL MEMBER SHIPPLEHOUTE: Thank you.

HEARING OFFICER LOYER: Anything further from the panel?

Thank you very much.

And the next witness will be Dairy Institute.

Marking the exhibit of Dairy Institute as 54.

(Exhibit marked.)

HEARING OFFICER LOYER: Good afternoon.

DR. SCHIEK: Good afternoon.

HEARING OFFICER LOYER: Could you please state and spell your name for the record, sir.

DR. SCHIEK: Yes, it's William Schiek. That's S-c-h-i-e-k.

HEARING OFFICER LOYER: And for the record, are you testifying on behalf of on organization today?

DR. SCHIEK: Yes, I'm testifying on behalf of the Dairy Institute of California. I'm their economist. And we represent about 35 dairy -- 34 dairy processors in the State of California.

HEARING OFFICER LOYER: Okay. Thank you.

You may proceed.

DR. SCHIEK: Ms. Hearing Officer and members of the Hearing Panel. Dairy Institute is grateful for the opportunity to testify at this hearing and we thank the Secretary for recognizing that the current situation facing our dairy industry is one that needs scrutiny. To state the problem quite simply, the regulated price for