EXHIBIT 53

PENGAD 800-631-6989

STATE OF CALIFORNIA

DEPARTMENT OF FOOD AND AGRICULTURE

DAIRY MARKETING BRANCH

CONSOLIDATED PUBLIC HEARING TO CONSIDER TEMPORARY AMENDMENTS TO THE STABILIZATION AND MARKETING PLANS FOR MARKET MILK FOR THE NORTHERN AND SOUTHERN CALIFORNIA MARKETING AREAS

CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

DEPARTMENT AUDITORIUM

1220 N STREET

SACRAMENTO, CALIFORNIA

MONDAY, MAY 20, 2013

8:00 A.M.

affected your operations in your competitive marketing of your products?

MR. DRYER: You know, we have seen our costs over the course of the last few years increase about $0.80/cwt. Which is small from the perspective of the issues facing the dairy producers but it's a big burden to a cheese manufacturer dealing in a very low margin business. So, you know, in cheese that represents $0.08 a pound, which is a -- it's a big, it's a big number to us.

MR. EASTMAN: So in terms of marketing your cheese then, is there still a margin available for you to manage through that as indicated by the fact that you want to extend the temporary price increases or are you leveraging your national and international presence to make that work?

MR. DRYER: The reason we're supporting it is because the Dairy Institute, which represents us, in discussions with the Legislature made the commitment to do that, so we are willing to stand behind that commitment.

HEARING OFFICER SUTHER: Thank you for your testimony, Mr. Dryer.

MR. DRYER: Thank you, sir.

HEARING OFFICER SUTHER: Mr. Erba.

To clarify for the record, Western United is Exhibit 38, Mr. Stueve's testimony is Exhibit 39, Mr. Dryer's testimony is Exhibit 40 and Mr. Erba's testimony will be Exhibit 41.

(Exhibits 39-41 were received into evidence.)

HEARING OFFICER SUTHER: Please state your full name, spell your last name and state your affiliation for the record, please.

DR. ERBA: My name is Eric Erba, the last name is spelled E-R-B-A. I am representing California Dairies, Inc.

HEARING OFFICER SUTHER: You may proceed.

DR. ERBA: Thank you.

Mr. Hearing Officer and members of the Panel:

Good morning. My name is Eric Erba and I hold the position of Senior Vice President and Chief Strategy Officer for California Dairies, Inc., whom I am representing here today. California Dairies is a full-service milk processing cooperative owned by 430 producer-members located throughout the state of California and collectively producing almost 18 billion pounds of milk per year, or 47% of the milk produced in California. Our producer-members have invested over $500 million in large processing plants at six locations, which will produce about 400 million pounds of butter and 800 million pounds of powdered milk products in 2013. On May 15, 2013 the Board of Directors for California Dairies approved the concepts contained in the testimony that I will be presenting here today. California Dairies' proposal is consistent with the guidelines given in the Food and

Agricultural Code, Division 21, Part 3, Chapter 2, starting with Article 1 and including Article 9 that discusses establishment of minimum prices.

We thank the Department for calling this hearing, this milk pricing hearing and allowing us the opportunity to present our proposal to change the Class 4b milk pricing formula. Our proposal will bring equity to the price of milk used in cheese processing and will also provide California dairy producers the relief that they need.

Several witnesses testified at a hearing held just five months ago that California dairy families were under a great deal of financial stress, with some unable to achieve a margin sufficient enough to remain in business. This situation has not changed. Feed costs remain high and dairy farm margins hover near historic lows. What has also not changed is the disparity between the California Class 4b price and the federal Class III price. Figure 1 shows the result of subtracting the Class III from the Class 4b price over the past five years. For comparison and reference the market price for dry whey is overlaid on the graph. The trend is clear enough - since the Department abandoned the end product pricing approach used to value whey in the Class 4b formula, the difference in the two class pricing series has grown. The class price difference has averaged $1.13/cwt. since January 2007 and has averaged $1.22/cwt.

since December 2007 when the Department instituted a $0.25 fixed factor in place of the end product pricing formula used to capture the value of whey in the Class 4b formula. On the chart the dashed vertical line indicates this data.

As might be expected, the financial pressures are having an effect on milk production. We can verify that California Dairies has experienced a drop of 5% in member milk production compared to last year. This is not a huge surprise after losing 32 dairies in 2012 and hitting our lowest daily average since 2005, an ignominious benchmark reached in September of 2012. For a full-service milk marketing cooperative with customers throughout the world, these milk production statistics are unnerving. We are beginning to question how well we will be able to follow our various milk and dairy product marketing plans if milk production continues to fall well below our projections.

We recognize that attempting to achieve a milk price high enough to erase the financial losses sustained by producers as a result of inappropriate whey valuation and high feed costs is problematic for both producers and processors in California. We have chosen not to take that course of action. Instead, we are proposing what we believe represents a solution to the milk pricing inequity that can be justified based on milk prices in surrounding states and the market conditions facing the dairy industry. We also note that our proposal is very closely aligned with AB 31, the legislation that is being considered that would increase the whey portion of the Class 4b price to be no less than 80% of the federal milk marketing order value for whey.

Proposal from California Dairies:

The hearing notice issued May 1st set forth the guidelines for proposals that will be considered at this hearing. California Dairies' proposal was designed to follow the format found in Article III, Section 300, paragraph (H) of the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas. The language found in paragraph (H) shall be replaced in its entirety with the following language:

> "The minimum prices for Class 4b milk solids-not-fat, as set forth in Paragraph (E) of this Section shall be increased by thirteen and eight-tenths cents ($0.138) per pound."

As proposed, the projected effect would be to increase the Class 4b price by about $1.20/cwt. The proposal was also projected to increase pool prices by approximately $0.52/cwt., if adopted and implemented.

The Class 4b component bears the entire milk price increase for two major reasons. First, a primary objective was to present a proposal that is consistent with the message that has been brought forward by the introduction and subsequent discussion of AB 31. That legislation would increase the whey portion of the Class 4b price to be no less than 80% of the federal milk marketing order value for whey, which is approximately $1.20/cwt.

Second, when making class-by-class comparisons of California milk prices with those in other milk marketing orders, only one class of milk stands out in the comparison as not being at all close to its federal counterpart and that's Class 4b. While California prices do not have to match milk prices found in other milk marketing orders, the prices ought to be reasonably close. Allow me to run through some of the differences.

For milk that is used to produce butter and milk powders, the California price has averaged $0.27/cwt. less than the federally announced price since 2011.

For milk that is used for fluid purposes, the Southern California prices averaged $0.52/cwt. less than the Arizona Order's announced price and the Northern California price has averaged $0.34/cwt. less than the Pacific Northwest Order's announced price.

The Southern California Class 2 price has averaged $0.42/cwt. less than the federal Class II price, and the California Class 3 price has averaged $0.70/cwt. less than the federal Class II price.

I suggest that for those price comparison, an acceptable level of price difference between California prices and federal order prices is demonstrated. However, when comparing the announced price for milk used to make cheese, the California Class 4b price has averaged \$1.96/cwt. less than the federal Class III price for the 27 month comparison period. The reason for the enormous difference is easily identified. A simple statistical analysis reveals that almost 80% of the change in the difference in the two milk price series is explained by the change in the value of dry whey. This phenomenon is a function of milk pricing formula construct regarding the valuation of whey and can be remedied easily by adopting California Dairies' proposal.

I will make one final point in support of California Dairies' proposal. Recently, California Dairies received the results of a study that reviewed the potential impacts of a federal milk marketing order in California. We, along with Diary Farmers of America and Land O'Lakes, co-funded the study conducted by Drs. Mark Stephenson and Chuck Nicholson. The study identified the large Class 4b-Class III price spread as being problematic and suggested that a manufacturing differential on the Class III price could resolve the problem of higher milk prices while simultaneously encouraging pool participation by cheese plants. The level of the differential is about $0.70/cwt. In other words, the study suggested that the California price for milk used for cheese ought to be $0.70/cwt. less than the federal price. That $0.70 differential is approximately the same as what was represented in AB 31 and is about the same as the $1.20/cwt. increase in the Class 4b price that we are proposing today.

Concerns About Increasing the Class 4a Price:

At the December 2012 hearing, I explained why increasing the Class 4a price as a means of achieving a higher price was fraught with problems. And yet, in the Department's decision, both 4a and Class 4b were increased by the same amount at $0.30/cwt. I feel compelled to reiterate the caution for increasing the Class 4a price and will provide a numerical example that uses the December 2012 hearing results to underscore the point.

Because nearly all butter and powder processing facilities are owned by producers and not by proprietary companies, increasing the Class 4a price only functions to redistribute money from the producers who have made investments in butter and milk powder processing facilities to those producers who have not. This is entirely counter to the concept of increasing milk prices to provide equitable milk price assistance to all producers. The higher the increase in the Class 4a milk price the less equitable the milk price assistance becomes. From the perspective of a CDI member, this caution appeared to be largely ignored when the Department issued its decision. Basically, CDI members will net only about $0.07/cwt. more in their milk price as a result of the December 2012 milk price hearing. The reason is that CDI members will have had to give back about $0.18/cwt. of the $0.25/cwt. in the form of higher prices paid by their cooperative for milk processed into butter and milk powders. In contrast, a producer who does not belong to a processing cooperative and has no investment in processing capacity will receive the full $0.25/cwt. price increase.

Our Negotiated Offer to Cheese Processors.

At some point during the discussions and negotiations that have taken place over the last three weeks, there was mention of the benefits of negotiating a compromise between the producers and processors to be presented jointly at this hearing. Using information passed along to us, California Dairies made a good-faith effort last week to develop a proposal that achieved middle ground in the discussions, that is to say, one that recognized and satisfied the positions of both producers and processors but required concessions from both sides.

The proposal had basically two tenets. First, all of the pool value increase from the December 2012 hearing decision would be borne entirely by Class 4b. This would mean that the Class 4b price would need to increase by about \$0.60/cwt. Second, the sliding scale used to value whey in the Class 4b formula would be restructured to result in a new ceiling of \$1.00/cwt. contributed to Class 4b, achievable at current market prices for whey. In combination, the changes would increase the Class 4b price by about \$0.80/cwt. and pool prices would increase by about \$0.35/cwt. Clearly, this proposal represented a significant concession from the position we have adopted for today's hearing. The fact that this proposal is not being presented jointly by producer and processor representatives tells the story - our proposal to find middle ground was not accepted. Consequently, California Dairies' proposal is aligned with the proposals being made today by other producer groups.

Some Concluding Remarks.

At a time when so many California dairy farmers are struggling to survive, the widely advertised disparity between whey valuation in federally regulated milk marketing orders and in California is difficult to understand and even more difficult to accept. We are mindful of the industry's efforts to create a foundation for a stronger and more viable dairy industry through the work of the Dairy Future Task Force. Dairy producers and California Dairies understand their obligation to be engaged in the process.

However, dairy producers, including members of California Dairies, need to survive in the short-term first. Our proposal mirrors the Class 4b pricing formula adjustment found in AB 31. We believe our proposal provides a reasonable and actionable method to achieve milk price equity and to bridge the financial gap from where California milk prices are today and where they will need to be in the future to prevent further attrition on the producer side of the California dairy industry.

Thank you for your attention. I am happy to answer any questions you might have.

MR. EASTMAN: I have a few questions for you, Dr. Erba. On page four of your testimony you mentioned a study that was -- that is being conducted by Drs. Stephenson and Nicholson that is reviewing the California industry. You make some mention of some of what their thoughts are as a result of the study. I don't see the study attached to your testimony; is that study eventually going to become publicly available? Is that something that is going to be kept close to the vest or how do you see that?

DR. ERBA: That study was co-funded by the three co-ops. At this point there is no talk of releasing the results of that study publicly. I've mentioned just one of the small things that they found from that study. I suspect that over time we will be able to discuss that more publicly, but for now we are not planning to release that in any public setting.

MR. EASTMAN: Are there any other conclusions that they made that would be more comprehensive? I guess one of the concerns I would have is by not seeing any of the results of what their study shows, you've picked out one part of it, I am just curious if -- or concerned there could be other aspects that are -- more conclusions they have reached that are more comprehensive that kind of point to the entire industry compared to just one portion of it or one point that you are making here in your testimony.

DR. ERBA: Right. You pointed out that the study is very comprehensive and obviously this was not the point of the study. The study was focused on something entirely different, this was something that came out of the study. At this point I think I'll just leave the conclusions as what I've said here in the testimony.

MR. EASTMAN: Okay. Obviously last year, I have a similar question of one I asked the representative from DFA. Milk production is obviously down this year compared to last year because last year we had such strong production during the spring flush, the first half of the year. But it appears, based on the data available, our milk production through the first few months of this year actually exceeds slightly what we were experiencing in 2011. If I remember correctly, you had some concerns back in 2011 with regards to the amount of milk we were producing. You felt that although you were able to handle it more or less you felt we were close to a tipping point or close to having concerns, you were close to having concerns. How do you view the current milk supply right now, the way you're handling it? Are any of your production bases in force, et cetera?

DR. ERBA: Our production base never goes out, it's always in, it's just a matter of are there any penalties assessed or not; we didn't assess any penalties this year. As Mr. Stueve said, it's a challenge every year, every spring, to get through that spring flush period and be able to handle the milk without having any significant problems. We were able to do that this year. We have gone past our peak and are starting to come down, it's through the good efforts of the folks that we work with.

And I want to also recognize the customers that we have, their ability to run their plants efficiently as well. Without them we would have problems. If they weren't running well we would necessarily have problems. We did not have problems this year that would result in penalties. And that's not to say it wasn't difficult. It is difficult, it's a challenge every year, but we didn't have problems where we had to result in penalties being assessed this year.

MR. EASTMAN: Based on what you're seeing, how do you view the situation going into the summer and the fall in terms of milk supply or the amount of milk that you'll have available?

DR. ERBA: Our projection right now is to have approximately -- it sounds kind of funny -- an average year, whatever that is. We expect to be higher than we were last year by a significant amount because we did experience such a huge drop-off last year. We hit our lowest point in September last year since 2005. I don't expect we're going to have that kind of an issue again.

But I expect that we are going to have more milk to deal with this year than we did last year for a number of different reasons. We did pick up a number of new producers as of January 1st this year that we didn't have last year and that adds to the milk supply that we have. I don't expect we're going to have milk handling problems for the rest of this year.

MR. EASTMAN: And then on page four of your testimony also you talk about how the temporary price increase that affected Class 4a prices affected your operation. Obviously CDI is a large butter/powder manufacturer in the state. You mention that the pool is a revenue sharing mechanism where regardless of where a producer will ship his or her milk, the revenue from that would be shared through the pool. Obviously your producer-members have invested money in your manufacturing plants but can that be said of all the manufacturing plants in the state, that there's definitely been investments by certain entities, organizations, that producers in general are able to take advantage of, even though you may not have shared in the investment in such manufacturing facilities?

DR. ERBA: I suppose you could make that argument, although there should really be a distinct difference between what a cooperative is and how it functions and what a proprietary plant is. And when you have price increases, as you saw from the December 2012 hearing, and it hits the 4a classes primarily owned by producers, there's a differential impact on the producers as far as the pricing received out of the pool and I think that needs to be recognized.

In the many years that I spent here we always recognized that Class 4a was something that definitely had issues with in terms of how much of an increase you could put on it because it had that differential effect. I was really surprised to see the results of the 2012 hearing because we had never had that kind of an issue where we'd say that the Class 4a and 4b ought to be treated the same. In my time they never were treated the same. And it was recognized that was because they were largely owned by the producers that were putting milk and money into that effort.

MR. EASTMAN: So if dairy producers are producer cooperatives that invest in either 4a or Class 4b plants do you feel that maybe those plants shouldn't participate in the pool because, obviously, they are producer-owned and that would be a way to --

DR. ERBA: That would be a major departure from the laws that we have today.

MR. EASTMAN: Sure. But you mention here in your testimony that the concept of increasing milk prices for equity is to all producers. So if there are certain producer-cooperative members or producers that have invested in whatever manufacturing capacity is available, by definition of the concept of pooling, they are always going to have to end up during times contributing to the pool. Any sort of increase would always be less than the producers that haven't. And so is there is -- it seems that there is no way to really fix that issue as long as there's producers who have invested in manufacturing facilities.

DR. ERBA: That may be, as I said, difficult to fix because of the way that the state laws are written for milk pricing and milk regulation in California. You wouldn't necessarily have those same kind of constraints outside of California because cooperatives are viewed differently outside California than they are within the state. But I am going to bring you back to where we are today, Mr. Eastman, this hearing is not focused on that at all, unfortunately.

MR. EASTMAN: Okay. And then the final question I have is you mentioned you, obviously, there's been a lot of negotiations with regards to finding a compromise through AB 31 and the legislation that is currently being worked on across the street. At this point your proposal mimics what the language of AB 31 was. Do you feel that if that bill were to be passed with some other sort of language, some other level of increase, do you feel that at that point that's what our pricing should revert to? For example, if the Secretary were to actually implement the proposal that we have here today and AB 31 eventually passes with some sort of different language or numbers do you think that's when -- do you think that would be adequate? Whatever is determined at the Legislature should be then what is then incorporated?

DR. ERBA: There needs to be some consistency there. I would suggest that with all of the things that are happening outside of this hearing, the legislation being discussed, the task force, the working groups, the easiest thing to do in that list of things to be done is to call another hearing again, remove some section of the Stabilization Plan or make it revert to something else.

That's a fairly simple process and can be done pretty easily. The other things we're working on are far more complicated and time consuming.

MR. MASUHARA: Dr. Erba, setting aside the discussion on the impacts of 4a on the equity and to the asset owner base, can you share anything about how it affected your ability to compete in your end product for the past few months with the previous increase that you are proposing to repeal now?

DR. ERBA: Well, without going into a lot of detail about the actual costs to the cooperative I'd suffice it to say with our kind of processing capacity, with our kind of ability to handle milk through our butter/powder plants it's millions of dollars a month that we are not going to be able to count towards cooperative profits that we would have otherwise.

MR. MASUHARA: Is there any way you could just in a summary sense, was it a severe impact the past few months, was it a moderate impact, was it relatively innocuous?

DR. ERBA: I would say it's tending toward severe and if it were in place for more than four months it would be a significant impact to the profitability of the cooperative.

MR. MASUHARA: And then I may have missed it but in your proposal did you guys state a specific time line or are you aligned with until something comes out of AB 31 or some other situation or event occurs?

DR. ERBA: Right. And I did not put anything specifically in the testimony that looked like a time line for the same reasons I spoke with Mr. Eastman about. Of all the things we're working on outside this hearing the easiest thing we have to do is to call another hearing to simply remove some language from the Stabilization Plan. What I am suggesting today as a proposal ought to be in place until something else comes along and causes us to have another hearing called to remove it. And it's the same approach we'd have for any hearing. All decisions are temporary until they are changed again.

MR. MASUHARA: And then also since being a cooperative you are more in tuned to the producer experience. Can you make any comments on how a 50 percent increase to the overbase price is going to address the current situation being experienced by producers with the high feed costs and the erosion of equity?

DR. ERBA: As I said in the testimony, the $.50 we feel is already a concession and it is not going to fix all of the issues that we've had to this point. If we were to get some producers here to speak their mind I'd think we'd probably be tending closer to $1/cwt., which is what they need to get fixed and we realize that that's out of the realm of possibilities. We figured that the $0.50 represents some kind of middle ground and it's definitely a concession on the part of the producers to get back to where they need to be.

MR. MASUHARA: That's all I have.

HEARING OFFICER SUTHER: Thank you for your testimony, Mr. Erba.

DR. ERBA: Thank you.

HEARING OFFICER SUTHER: Mr. Schiek.

Please state your full name, spell your last name and state your affiliation for the record, please.

DR. SCHIEK: Yes. My name is William Schiek, that's S-C-H-I-E-K, and I'm with the Dairy Institute of California.

Whereupon,

DR. WILLIAM SCHIEK

Was duly sworn.

HEARING OFFICER SUTHER: I would like to enter Exhibit 42 into the record.

(Exhibit 42 was received into evidence.)

HEARING OFFICER SUTHER: You may proceed.

DR. SCHIEK: Thank you. Mr. Hearing Officer and members of the Hearing Panel:

My name is William Schiek and I am Economist for the Dairy Institute of California. I am testifying on the