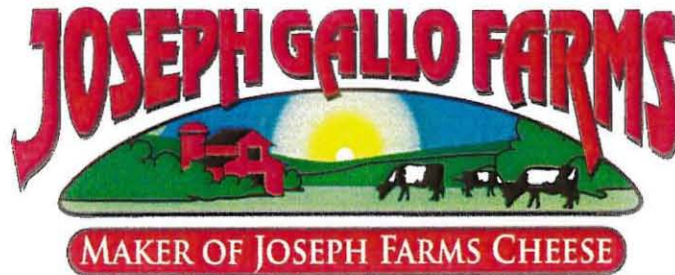


10561 West Highway 140
P.O. Box 775
Atwater, CA 95301-0775



Telephone 209-394-7984
Fax 209-394-4988
www.josephfarms.com

HEARING
BEFORE THE UNITED STATES DEPARTMENT OF
AGRICULTURE
AGRICULTURAL MARKETING SERVICE

ON PROPOSALS TO ESTABLISH A FEDERAL MILK MARKETING ORDER
FOR THE STATE OF CALIFORNIA

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Clovis, California

Testimony of Joe E Paris

On behalf of Joseph Gallo Farms

My name is Joe E. Paris. I am a dairy consultant representing Gallo Cattle Company LP d.b.a. Joseph Gallo Farms. I am responsible for the milk and cream into and out of Joseph Gallo Farms. I also work with the Farm Service Agency for Gallo's farming operations. I provide market and other pertinent information to the senior management of Gallo on a daily basis. Prior to September 1998 (when I started my consulting business) I worked for National Farmers Organization for 26 years. During that time I provided testimony on behalf of National Farmers at several Federal Milk Order hearings. After I moved to California in 1991 I have not been involved in any Federal Milk Order Hearings but I have testified at several California State Order hearing.

Joseph Gallo Farms is located at 10561 West Highway 140 in Atwater CA. At this location we have the Gallo Cottonwood Dairy and the Gallo Cheese plant as well as Gallo Global Nutrition, a whey processing plant. Two miles east of the Gallo cheese plant is the Gallo Santa Rita Dairy. Between the 2 dairies Gallo milks approximately 8,000 cows. We farm several thousand acres to provide feed for our milk cows.

Gallo supports the Dairy Institutes alternative proposal at this hearing. Gallo is opposed to the Cooperative proposal as written. We are taking no stand on the other proposals at this hearing.

Joseph E Gallo started farming in 1946. In 1983 he hired a Wisconsin Cheese maker to help him realize his childhood dream to make and market cheese. He and the cheese maker built the Gallo Cheese plant. Since that time the plant has been improved and expanded several times. The cheese plant plans processes close to 500,000,000 pounds of milk this year into various cheese varieties including cheddars, Monterey Jack, Mozzarella blocks and pasta filata. At this time, much of the milk that Gallo processes, is bought from outside suppliers. We concentrate whey from our own plant and are a market for whey protein concentrate (WPC) from other small plants in the area. The WPC is processed and dried into Whey Protein Isolates (WPI) at the Gallo Global Nutrition plant, part of the Gallo complex.

Domestically we sell packaged cheese under the brand of Joseph Farms Cheese. Most of this cheese is found in grocery chains or Walmart and Costco. We also export cheese into Mexico and other countries, both branded and unbranded. Some of our cheese is sold as commercial blocks or food service.

Gallo has always tried to invest in ways to not only improve our efficiency, but in a way to protect our environment. The Gallo methane digester provides electricity to operate the plant. Waste water from the plant is use to flush the Cottonwood dairy lanes to a separator where solids are taken out before the liquid goes into the digester. Solids are then composted and used to fertilize land. This system cost millions of dollars to build and maintain. Gallo Global Protein is another large investment where we process WPC from our cheese plant and from few other small cheese plant.

If Gallo had been required to pay the Federal Marketing Milk Order Class III price for the last several years none of these improvements could have taken place. Gallo is a small plant when compared with other national companies in California and we would not have been able to generate enough profit to invest in these long term sustainable projects. Without profits there is no investment. From January 2014 through September 2015 we believe that Gallo's cost per pound of cheese would have increased under the Cooperatives proposal by an average of \$0.2237. This kind of cost increase would make us uncompetitive in every market we service and possibly eliminate our sales in Mexico.

As mentioned earlier Gallo milks 8,000 cows in two facilities. We certainly understand the plight of dairyman in the State of California. Both as dairy producers and cheese plant operators we are at the mercy of the market place. Volatility can be the enemy of both producer and processors. Long term planning and investment is needed in order to grow both the producer segment and the processors segment of the dairy industry. If the Cooperatives proposal is adopted as written it is our opinion that the cheese sector in California will stagnate almost immediately. Some medium and small plants will no longer be able to sustain their processing plants. Producers will find themselves with fewer markets. The California market will find itself in pre-1985 position of having mostly a butter-powder industry.

How would we respond at Joseph Gallo Farms if the Cooperatives Federal Milk Marketing Order proposal is adopted? One scenario would be to eliminate all outside suppliers of milk and reduce our cheese sales to only our Joseph Farms packaged cheese. We might need to add a few more cows and take advantage of the higher milk prices. Our branded product prices would have to be increased in order to maintain overall profitability. We could also look at diversifying our operation by planting more permanent crops. At the very least, we would have to eliminate any premiums or handling charges we currently pay our suppliers.

Producers have a tendency to look at the Midwest or the East Coast and feel that ^{they} are being deprived of a fair price. These producers serve an entirely different market than what we have in California. Because of their location, these areas serve the vast population that runs from the Midwest to the East Coast and from Maine to Florida. Because of transportation costs they can demand higher prices for their products. Much of California's production services not only the West coast population but also Mexico and the export market. These export markets including Mexico, cannot pay the prices that would be needed to offset the increased cost of the Federal Milk Marketing Order Class III price. Even in the emerging markets, incomes will not allow any chance for profit or growth. We know that when cheese prices are over \$2.00 per pound both domestic and export sales are reduced. What we here about the growth in the middle class in many of the emerging countries to which we export cheese, does not mean that they have the same ability to purchase as the middle class in this country.

In the Federal Milk Marketing Orders plants are allowed to de-pool and there are no minimum pricing laws that require a minimum payment for de-pooled milk. The Cooperatives proposal does not allow de-pooling in the California Federal Milk Marketing order unlike other FMMO's.

This fact alone can cause disorderly market conditions for cheese plants. Due to large increases in milk production in other parts of the country it has been reported that milk has been purchased as much as \$7.00 CWT below the minimum regulated price in the spring and summer of 2015. We have also heard reports of many loads of milk being dumped in this same time period. Today in California it is unlawful to pay less than the regulated price unless the milk does not meet the Grade A standards of quality and the milk is degraded. Many of the plants in the Upper Mid-West have much lower overhead costs due to California regulations that have nothing to do with milk. Many of the plants are medium to small and process specialty cheeses. Some are able to buy manufacturing grade milk at a reduced cost on a regular basis. In the last several years we have seen large cooperative cheese plants closed due to losses from the prices required under our current California State pricing system. The Cooperatives proposal would greatly increase those costs. Gallo supports the Dairy Institute's proposal that allows de-pooling California.

Joseph Gallo Farms is opposed to the Cooperatives proposal as it is written. For some plants it would mean closure. For others it might mean a complete change in the way they do business including the amount of milk they could purchase. I know of cheese plants that have planned to add additional cheese making equipment or whey processing equipment that would not be able to meet that plan due to dramatically increased milk costs. The cost of raw milk into a cheese plant can be 95% of its total costs. Areas that we compete with for cheese sales such as Idaho and Utah are not price regulated under any state or federal order.

We support the principles of the Dairy Institute proposal in particularly the concept of moving the whey pricing from dry whey to Whey protein Concentrate (WPC), a much more market oriented price. It is our understanding that there is only one (1) plant in California that is currently drying whey. Most whey product pricing is related to the WPC price rather than the dry whey market.

Gallo is concerned that the implementation of a Federal Milk Marketing Order in California could force the closure of several small to medium size cheese plants including Gallo's. This will result in less processing capacity in the State and more producer milk seeking a market.

Thank you for the opportunity to testify on behalf of Joseph Gallo Farms. This concludes my testimony.