



Testimony of a California Dairy Producer

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Why Now?

My name is Rien Doornenbal. My wife Lieske and I own and operate a 1600 cow dairy farm near the town of Escalon, about 120 miles north of here.

Our son Pete with his wife Laura and children operate their own dairy farm near Caldwell, Idaho. Our son John with his wife Maryann and children operate their own dairy farm near Middleton, Idaho. Our daughter Tienieke and her family live near Tacoma, Washington. Her husband Hans grew up on his family's dairy farm and currently sells John Deere farm equipment. Our son Luke, his wife Brittany and family live near us and farm almonds. Brittany comes from a California dairy family and has a Dairy Science degree from Cal-Poly.

Even though our children are not directly involved in the Escalon operation, our businesses are connected to each other in many ways and the welfare of our California operation effects the next two generations just as much as it effects Lieske and myself.

My wife and I, our 4 children and each of their spouses support proposal number one for a Federal Milk Marketing Order for California I'm sure each one of our 13 grandkids would lend their support as well!!

This attempt by the producer segment of the dairy to move towards a FMMO for California is certainly an historic event. The final outcome will determine not only if our family continues to milk cows in California, but will be a determining factor for many others as well.

Much testimony has been given as to the fact that milk production is down in California because many producers have been forced out of business.

Without some substantial improvement in the price relative to producers in other parts of the country, not only will we continue to see producers forced out but we are starting to notice another trend.

In many discussions with my peers as I prepared for this testimony the common word I heard is "tired". "I'm just getting tired of putting a tremendous amount of effort and capital into my dairy business and getting very little or nothing in return."

Without proposal number one for a FMMO for California many of us have no confidence that milking cows in California will be a worthwhile endeavor in the future. Without a proper FMMO for California you will see many more producers who decide to take their assets they have left and do something else.

So why is this the right time for California dairy industry to move to a Federal Milk Marketing Order? More specifically a FMMO for California as proposed by the three Co-Ops, CDI, DFA and LOL and supported by all three

industry trade groups California Dairy Campaign, Milk Producers Council and Western United Dairymen. The short answer to my question can be found in a recent Wall Street Journal article titled "Big Milk Market Goes Sour" I would like to draw your attention to one paragraph in that article. "California dairy farmers have lost their competitive advantage." Says Jerry Dryer, editor of the newsletter Dairy and Food Market Analyst, Inc. "There's clearly a resurgence in the upper mid-west" and other traditional dairying areas.

I want to repeat because this is very important "CALIFORNIA DAIRY FARMERS HAVE LOST THEIR COMPETITIVE ADVANTAGE."

I also want to emphasize we are NOT looking for a competitive advantage over any other producer areas. All we want is to adopt a FMMO for California so we can operate under the FMMO minimum prices instead of the California State Order (CSO) minimum prices.

Some of my testimony will be about our own family dairy operation. How we went from 120 cows in the early 70's to 1600 cows today. I will share that story because it is a typical story of growth and expansion of the production side of the dairy industry on California. More importantly I would like to "paint a picture" if you will of social and economic conditions that existed during what I call the "golden age" of dairying in California, how those conditions have changed and hopefully bring more clarity to the answer to the question "why now." You probably have heard a lot of testimony and will hear more about how the drought, regulations, reduced forage sources and the competition of higher value crops have affected the California dairy producers. While I agree with that, and all these factors have affected our operation, my testimony will take a slightly different direction.

My father was born in Holland the second son of a small dairy farmer. Tradition determined that my father's older brother would take over the family dairy farm. My father's dream from the time he was a very young was to eventually have his own dairy farm. Even as a grade school boy dad knew intuitively that leaving Holland was his destiny.

My parents met during the German occupation of Holland during WWII. Very shortly after the war on July 4, 1947 they stepped off a train in Ripon, California. My parents, Herman and Clazina were barely in their mid-20's. Like so many immigrants, what they lacked in cash was made up by courage.

My father worked as a milker for a dairy farmer in the Ripon area while my mother cleaned house for others. A few years later with the money they had saved and a small loan from one of my mother's uncles they were able to purchase 30 cows and rent a small dairy farm near Ripon. A year and a half later they purchased their first property near the neighboring town of Escalon. We still dairy there and that first property is still affectionately called "the home place." Dad thought "if only I can get this herd up to 60 cows."

Our family story is somewhat typical of literally hundreds of Dutch and Portuguese immigrant families that came to California in the late 40s, 50s and 60s. While these families are not the only social and cultural group that grew dairy production in California they were never the less a huge contributing factor. It is these two groups of people that make up a large part of my "institutional memory" of the growth of the California dairy industry. I will attempt to show how these families and others, hungry to succeed, willing to work and take risks, were able to expand production because of the opportunities that opened up to them.

Lieske and I were married in 1974, and started a partnership with my parents in 1975. I have had "boots on the ground" since just before milk production in this state started to take off. I have witnessed and experienced much success on the production side of the dairy business in California. More recently I have witnessed and experienced that our industry has been brought down to its knees in humility.

To understand some of the history let's look at milk production for California versus Wisconsin starting in 1945 a 70 year period. I chose Wisconsin as merely a representative state for Midwest milk production. (Please see Exhibit A).

Let's break it down into production from 1945 thru 1970 a 26 year period. California production up 3.8 billion pounds probably mostly due to class I sales as the population exploded post WWII. Wisconsin production up 3.5 billion pounds. Statistically no difference. I believe it would be instructive to know that by 1970 Class I usage in California was at about 75% and that percentage had not changed dramatically since regulated pricing started in California in 1935 even before the FMMO for the rest of the country came into existence. From 1971 thru 1980 California up 4.1B pounds Wisconsin up 3.9B pounds. Still statistically no difference. For 35 years following WWII California milk production was up 7.9B pounds and Wisconsin 7.4B pounds. I think we would all agree that California and Wisconsin to be up in virtually the same amount in a 35 year period is a very interesting statistic especially if we study what happened the next 30 years.

From 1981-1990 California increased production by 7.3B pounds and Wisconsin by 1.9B pounds.

From 1991-2000 California increased production by 11.3B pounds and Wisconsin actually LOST production by 1.0B pounds.

From 2001-2010 the trend actually starts to change slightly California is up 8.2B pounds a little less than the previous decade and Wisconsin is up 2.8B pounds ending that states decline.

Let's look at the next 4 year period 2011-2014. Wisconsin and California increase production by roughly the same amount although Wisconsin by a greater percentage.

How do we explain the twenty year period of 1981-2000 California production came up by 18.6B pounds? Wisconsin didn't even increase by a billion pounds in fact Wisconsin production during the second decade of this period lost 1 B pound.

California production from 1981-2000 increased by 18.6B pounds. An astounding number especially if we consider that this increase alone was more than double the yearly production of 1970.

How did this happen?

First of all by the early 70's the California dairymen started to feel the effects of the Gonsalves Milk Pooling act. By the early 70's the rank and file dairymen came to understand and feel the stability the Milk Pooling Act brought to the industry. Every dairymen knew where they stood as to their share of Class I usage and became confident that the new system was working. There was no longer the vulnerability brought on by the Class I bottlers that gave them the power to grant and take back contracts to produce milk for that market.

Once the producers realized the Pool Quota that was granted to them as a result of the Gonsalves Milk Pooling Act was really theirs and they no longer feared or were preoccupied with their relationship with the fluid milk bottlers, they had the peace of mind to focus on the production of milk. George Merten testified September 22nd that the Gonsalves Milk Pooling Act "gave us back our dignity". The Pooling Act still does not fully explain why milk production took off in the late 70's. Really, how did we increase from less than 10 billion pounds in 1970 to greater than 40 billion pounds in 2010.

I believe the driving factor was not with cheap land, cheap feed, irrigation or cheap water. In fact, the key factor needed to produce forage is water and has always come to some cost in California. Water for growing crops has

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and continues to be free for the Midwest dairymen because no entity, persons, bureaucrat or government can control the rain that falls out of the sky.

We will come to realize this distinction more in the future because there is no doubt that the water we need in California to grow the roughages for our cows will come under increased government and bureaucratic control.

So what happened? What is the rest of the story? It is very simply one thing. The California dairymen were way ahead of the rest of the country in developing the skill, expertise and physical facilities to handle large numbers of dairy cows. Quite simply our advantage was that our overhead cost on a per unit of production was far lower than the more traditional dairy producing areas such as the upper Midwest. This expertise was developed not because we were more intelligent or forward thinking than our peers in the Midwest. We discovered the "California Advantage" Unintentionally and accidentally.

Let's take a look at what the model for milk production looks like prior to WWII across much of the U.S. Most of the milk was produced on farms not even called dairy farms because milk was only one of the commodities produced. Most of these farms contained other farm animals such as chickens and hogs. Virtually all the feed for the animals was grown on the farm. Often only cream was sold for cash and the skim milk fed the hogs. Most of these farms were small family operations. The number of cows milked was pretty much dependent on how many family members were willing to participate in the milking. Remember it was done by hand.

After WWII many of the farms all across the U.S. started to concentrate on fewer commodities and many chose to no longer milk cows and others chose to specialize in producing milk. However the basic model for producing milk did not change for many years. Mostly dairy farms all across the Midwest remained relatively small operations producing the bulk of their own feed. Cows were housed, milked and fed in the quintessential red or white, all American big barn during most of the year. These dairy farms were very labor intensive and the facilities were very expensive to build.

In California our first experience with larger herds started in southern California with the increased demand for fluid milk as the population grew rapidly. Dairy farms in that part of the state have had a long history of being larger than other parts of the country going all the way back to the 1920's. These "dairies" as they became known as opposed to "dairy farms" were some of the first to specialize in the large scale production of milk.

Prior to WWII most dairies in the southern part of California were sized in multiples of 30 cows because 30 cows was the accepted number of cows 1 employee could hand milk two times per day. An example for a typical dairy which served the LA market would milk 60 cows, be owned by one individual employing 2 men known as milkers. Cows were housed and fed in open lots called corrals and milked in buildings that were built for the single purpose of milking even though they were called barns. To this day a modern milking parlor in California is still referred to as the milk barn.

After WWII with the invention of the milking machine, the typical dairy doubled in size and doubled again with the implementation of the pipeline milk system.

Many of these dairies were financed by the fluid milk processors because of the challenge to meet demand caused by the population explosion. As housing replaced dairies in the traditional dairy areas near the coast many dairies moved inland to the other side of L.A. to the Chino Valley area. These moves allowed the dairymen to build even larger more modern dairies. All the while increasing their ability to manage larger herds of cows efficiently. By the early 70's very little farm land remained in Southern California making it necessary to import roughages from the Imperial Valley as well as the Central Valley.

This combination of events lead to a very specialized dairy production model in Southern California. It was a place that many Dutch, Portuguese and Basque immigrants got their start, working as cow milkers. Many learned the business side of dairying from their employers, many of which either willing by or unknowingly mentored these young immigrants. Hundreds of these young families saved money and started small dairies in the Central Valley, Washington State and Idaho. At the same time many sons of the Southern California dairymen started in the Central Valley and other states including New Mexico and Texas. Most of these families that left Southern California to start dairies in other places took with them the basic know how to manage larger herds and even though they may have started small, many expanded aggressively and rapidly.

Even though dairy expansion in the Central Valley started in the 70's it really took off in the 80's. The weather allowed us to still house cows in open lots and the milking took place in ever increasing labor efficient milking parlors often operated for up to 24 hours per day. These type of facilities were much more economical to build on a per cow basis compared to what was common in the Midwest at the time. The regulatory and permitting process to be able to construct new or expanding facilities was easy, simple and inexpensive. The requirements to meet building and environmental codes were reasonable and affordable.

Roughage in the Central Valley was cheaper than in Southern California because it was either grown by the dairymen or purchased nearby, eliminating expensive transportation cost. Feeding of silage became an almost universal practice in the Central Valley. Corn and forage crop silages are very economical feeds that fit extremely well into a dairy cow diet. (Due to the fact that silages by their very nature have a low dry matter content moving them long distances does not make economic sense).

When I was growing up and during our earlier years in business the main grain we fed was barley, shipped to California from the North West by rail, usually a few carloads at a time to the feed mills. These feed mills steam rolled the barley to make it digestible for the cows. In the 80's we started feeding some rolled corn, usually blended with some barley. As time went on economics determined we would totally eliminate barley. Feed mills expanded their storage and rolling capacity and started receiving corn from the Midwest shipped to California on dedicated trains, a mile long hauling 110 cars each. That's 11,000 Ton per trip. Keep in mind that during much of this time fuel prices were lower and the cost to transport the grain to the valley was cheap. At the same time the raw product cost of corn was very inexpensive it was by and largely produced by farmers subsidized by the U.S. Government to do so. Over time we figured out we could make milk cheaper in the Central Valley than anywhere else in the country. The California dairyman had discovered the "California Advantage".

Before we go on we need to look back to the dairy provisions of the "1977 farm bill" and how that impacted milk production in California relative to the rest of the country. I personally believe the impacts of that misguided policy though welcome at the time, ended up being a thorn in our side and we still feel some of the pain today.

The "1977 farm bill" set the support price of milk at 80% of parity with semi-annual adjustments. The support price went from \$8.26 in 1977 to its peak of \$13.26 in 1981.

The high milk prices we received as a result of these unwarranted high support prices were a huge windfall for dairymen all across the county. I remember thinking after one ^{of} the announcements that the support price had gone up again "this can't end well".

During that time my father and I were coming back from our accountant in Modesto and as we approached the Mercedes dealership I half seriously suggested we both go in and buy a new car. Dad said "maybe we should do

that but let's sleep on it for a night". The Mercedes was forgotten but we were soon pouring cement for more corrals and going to the cow dealer buying heifers that were soon to freshen and make milk. We did the same thing most other dairymen in the state did, increased production.

One particularly astute California dairyman that I know, responded to the 1977 farm bill by selling his pool quota and using the proceeds to expand from 1000 cows to 3000 cows in a very short amount of time.

So let's look at the milk production increase comparing California to Wisconsin's, for a 10 year period following the passage of the 1977 farm bill. California went from 12B lbs. to 18B lbs., a 50% increase. While Wisconsin went from 21B lbs. to 24.8B lbs. an 18% increase. Why the difference? We both had windfall profits. The reason was simple. Our model for dairying in California at that time was relatively inexpensive, and very easy to expand, while the Wisconsin model was not. Once again the "California Advantage".

California dairying grew in spite of lower than average milk prices. The only way we could compete was to continue to reduce costs which was mostly done thru the economies of scale. To put it ~~on the other way~~ ^{^ another}. The technology needed to be efficient is expensive and it required larger and larger dairies to be able to spread out per unit cost.

I have heard that some USDA representatives here would like to hear testimony from some producers with less than \$750,000 gross income. That would be a dairy of about 175 cows and they virtually don't exist anymore. The "California Advantage" did not work well for the smallest dairies.

Many were the dairymen that built larger than originally planned facilities. As they embarked on the planning process they often decided to build the largest dairy possible with the access to financing often times being the limiting factor. They discovered that to a degree the larger they built the lower it cost on a per cow basis. If one were to "run the numbers" it is no wonder that so many 3000 cow & larger dairies have ^{been} built.

From the time Lieske and I went into business in 1975 until 2009 I don't believe we ever had a time that we felt our dairy was at risk financially. In fact during that whole period I remember very few dairymen that were forced out of business by their banks. The most successful were the ones with a reasonable amount of management ability and willing to leverage themselves financially in order to continue to grow. The smaller dairies such as ours of 120 cows in 1975 either grew or went out of business. Those smaller dairies that went out before 2009 generally did not go bankrupt. Mostly they voluntarily went out and used their assets in other ways.

So what was the cumulative effect?

1. The learned ability to manage large herds.
2. Opportunity to build cost effective facilities.
3. Reasonably priced roughage and cheap grain.
4. Windfall profits as a result of the 1977 farm bill.
5. A large group of immigrant families and second generation dairymen with a passion for the dairy business.

This ~~lead~~ led to the explosion of milk production in California which then ~~lead~~ led to the need to build more processing capacity. The opportunities to grow, sell milk cheap and still make a profit ~~lead~~ led to a culture in the dairy industry to incentivize the processors to build plants. It is a well-accepted fact in the industry that high make allowances in California were used as incentives for growth in the cheese industry. In my opinion the FOB adjuster was a

part of the scenario. This was not an organized movement but more of an evolution. Neither was it a perfect marriage but it did involve the producers, the Co-Ops the processor and the California Department of Food and Agriculture at different times and in different ways. I will even add to that list the California Milk Advisory Board on which I served on the state level. The California Milk Advisory Board started to promote cheese heavily in the late 80's because "after all we are becoming a major cheese producing state". As producers we were not always happy with those arrangements but to utilize the "California Advantage" we had to put up with the California Discount.

Let's take a tour of what the modern California dairy looks like as compared to 35 years ago. The main thing we would notice is in the area of housing, as in most areas of life we keep evolving. Very few of the open lots are left. Today most dairy cows in California are housed in a huge steel barns called free stall barns protecting them from the sun and providing a clean dry comfortable place year round in which to eat and lay down. Inside you will find a soaking system on timers to periodically wet the cows and huge fans to move air across the cows to evaporate the water to aid in cooling on any hot day. This type of housing is not a luxury. It is an economic necessity to take care of our cows the best way we know how, to allow them to produce all the milk they are able to within their genetic potential.

Let's not forget that the regulatory climate has changed drastically. My description of the process (on page 5-2nd paragraph down) is not even recognizable today. I would challenge anyone here to tell us of any new facilities built in the state since 2009.

Next, let's get on a plane and travel to Wisconsin, "America's dairy land" and tour modern dairies in that state. As we travel about the country side we would start to see evidence of construction going on for new and expanding facilities. The first thing you would notice is the absence of the quintessential, red or white, all American big barn. Gone are the silos for storing silage for feed. We would soon notice that the typical modern California dairy and the up to date Wisconsin dairy don't look very different. Both have milking parlors for the single purpose of harvesting milk with the same technology on the inside. Both utilize free stall barns for housing and both utilize silage piles on large slabs on cement outside. Size wise many of the Wisconsin dairies would be similar to California.

Let's go into the office ^{to} listen as the California dairyman and the Wisconsin dairyman converse. You will soon discover as opposed to a generation or two ago that these people are from the same "world". They will talk about employee management, cow comfort and the use of custom operators to do much of the farm work and harvesting the resulting crops. After a while you will hear the words Dairy Comp 305. Dairy Comp 305 is a cow management computer program, developed in California to help manage large herds. It is now used all over the world and is certainly the most prevalent dairy cow management software in the United States. Soon these two dairymen will discuss the use of cameras to verify milking ^{that} protocols are being followed and to help keep watch of the maternity cows. They will discuss the use of nutrition consultants to formulate proper diets for their cows

and they may compare protocols or Standard Operating Procedures for a host of tasks on a modern dairy, regardless if that would be California, Wisconsin, Texas, South Dakota, New York or Idaho.

What has happened in the last 35 years in the dairy industry in the United States is the almost complete homogenization of dairy management practices, technology and facility design, California is no longer the low cost producer but our current pricing system completely ignores that fact. At one time we were way ahead of the rest of the country for efficiency but now we are barely "on par". Our "California Advantage" has evaporated.

California passed Wisconsin in milk production in 1993. This was not taken lightly by not only the dairymen of that state but by everyone from the Governor, the Wisconsin Department of Agriculture, Trade and Consumer Protection and all the way down to many ordinary citizens. I attended a meeting some 20 years ago and one of the speakers was associated with the Wisconsin dairy industry. This man was visibly upset that we had overtaken them as the number one milk producing state. He predicted that someday times would really get bad and the Wisconsin dairyman would once again regain their number one spot. His theory was that the frugality of the Wisconsin dairyman would save the day and all of us in California would go broke. This speaker was half right. Today the Wisconsin dairy business is thriving and California is struggling but he was dead wrong about how it would happen.

I'd like to quote Dr. Danny Klinefelter, Professor and Extension Specialist, Texas A&M University Department of Agricultural Economics.

“The only truly sustainable competitive advantage is the ability to learn and adapt faster than your competition. Therefore the most successful businesses are learning organizations. This involves recognizing that someone, somewhere, has a better way of doing things and everyone in the business needs to be driven to find it, learn it, adapt it and continually improve on it.”

At some point in the last 20 years the Midwest dairy producers have decided to “learn and adapt”. They recognize that someone, somewhere has a better way of doing things, they are driven to find it adapt it and continually improve on it. Another way stating this is the dairy producers in California have been “beat at our own game” by the dairy producers in the rest of the country. California dairymen are very good at learning and adapting but as long as we are in the CSO many of us question if the effort to do so is worthwhile.

I sometimes feel that we as producers have reached a Faustian Bargain with the rest of the stake holders in California dairy industry. The German legend has it that Professor Faust traded his soul for unlimited knowledge. I feel like we producers, at times, traded a low milk price for plant capacity in order to be able to produce an unlimited amount of milk even if the price is far short of what producers in the rest of the country were getting for milk used to produce the same product. (See second paragraph, previous page). Like professor Faust, once the bargain was set in place and as conditions changed we producers realized too late that we had become powerless to adjust the terms of the “bargain”. In fact even as more change has become needed we have felt the tentacles of the “bargain” dig deeper into our skin to the point of drawing blood.

Now some of you might think that I am being over dramatic with my description of our current situation. Let's unpack this a little if you will.

Are there any dairymen in the room?

What do the numbers 2-0-0-9 mean to you? I could ask that of any dairymen, feed supplier, dairy supply vendor or dairy equipment dealer anywhere in the United States and I would get exactly the same answer. The memory of calling the bank every month to draw a \$100,000 or more on our lines of credit, just to pay the monthly bills, will be etched on my memory forever.

The low dairy commodity prices of 2009 effected every dairyman in the United States in virtually the same way. The industry as a whole throughout the United States took losses running into a negative three or four dollars per 100 pounds of milk. Losses of \$1,000 per cow were not uncommon throughout the industry all across the United States. According to our CPA prepared accrual based financials, Lieske and I lost \$1,324,127 producing

milk in California during 2009. I believe that negative number is somewhere in the range of normal for a dairy of our size. Unbeknownst to the California dairyman the worst was still to come.

Please allow me to describe what those words "California Discount" mean. It is simply the spread or difference between CSO class 4b price and the FMMO class III price. Nothing more nothing less. Since the CSO class 4b price is always less than the FMMO class III price, (please see Exhibit B) to refer to that difference as the "California Discount" is appropriate. For the purposes of this testimony it is much more clear and concise to address the disparity as the "California Discount" as opposed to continually referring to the long list of acronyms and calculations the phrase replaces.

As dairy commodity prices started to recover in 2010 let's examine what happened to the "California Discount". (Please see Exhibit B). I think there are two numbers that are glaring. They are the "California Discount" and the impact that has had on producer income since 2010. Let's use our dairy again as a good example of how those numbers effect dairy families throughout the state.

From January 2010 thru July of 2015 our dairy produced 2,543,273 hundredweights of milk. The impact of the "California Discount" of \$.79 for that 5 year and 7 month period was \$2,009,185 for our dairy.

I'm going to use Cornell Kasbergens comments on page 961 of these hearing transcripts. "In an industry where we must compete for animals and feed with dairies around the country, this discount puts us at a huge disadvantage. In fact, it puts the entire California dairy industry at risk and is why we are here today."

This "California Discount" of \$2,009,185 could have gone a long way to back fill the 2009 disaster and also give us some badly needed working capital.

Let's look at the numbers another way and the scenario gets even uglier. The "California Discount" impacted the California dairymen an average of \$.23 per hundredweight for the period of 2005 thru 2009. A five year period. For the period of 2010 thru July 2015 a 5 year 7 month period, the impact of the "California Discount" was \$.79 per hundredweight. The amount of the INCREASE of the impact of "California Discount" for the later time period was \$.56. The INCREASE alone was twice as much as the previous 5 year period impact of \$.23.

If we use the \$.56 and multiply that by the 2,543,273 hundredweights we arrive at an amount of \$1,424,232. This is shocking. The INCREASE of the "California Discount" that occurred from 2010 thru July of 2015 would have more than back filled our loss of \$1,324,127 that we experienced in 2009, the worst year in dairying for the countries dairymen since the great depression.

We have lost the "California Advantage" but the "California Discount" continues.

We dairymen of this state have learned much about our California State Order (CSO) in recent years. I am going to quote one of my dairyman friends who started before pooling. "Who would have thought we would be working towards a FMMO. It used to be if we had a problem we would call a hearing in Sacramento and fix it". Not that we dairymen were always 100% happy with the outcome but we seemed to always reach some reasonable compromise. That is no longer the case. (Please read Rob Vandenhauvel's testimony given October 5th).

We have learned some new terms during this hearing. First the "California Discount" then the "California Advantage" (which no longer exists). Now we will learn one more term, it is called the "California Flaw". Please don't think that I am joking or trying to be cute.

The "California Flaw" is the flaw that we producers have discovered with our CSO pricing system. We have found that ultimately the Class prices and the formulas that determine those prices are the final decision of one person. That person is the Secretary of the California Department of Food and Agriculture. I am not referring to any one person. Only the position. The Secretary has the power to set class prices where he or she wishes to set them regardless of what any of the other stake holders in the industry have to say about that. Only the governor could change it. This is not an entirely comforting reality for the processors either. We have discussed much about the "California Discount". What if someday the Secretary woke up had an epiphany and decided to help the dairy producers out and called a hearing and in spite of whatever the hearing panel might recommend, came out with a change to the formula for CSO class 4b that would result in a price in EXCESS to the FMMO class III.

There is nothing in the California Food and Agriculture code that could prevent this from happening. We would call that the "California Premium". So in reality we have a system where by both processors and producers are vulnerable to the wishes and whims of the Secretary of the California Department of Food and Agriculture.

This is a system that not only frustrates us producers but makes our bankers very leery of any funding for our dairies. No one in the industry can predict prices. Now we have learned that we cannot even predict the relationship of the CSO class prices to the FMMO class prices.

This problem adds more risk to the ones we as producers have to manage. Our bankers know it and don't like it. Our banker told me this about our dairy loans. (Unofficially) "You're on a 5 year plan. If you can't pay for it in 5 years, forget it". In the next breath he is ready to loan all we might ask for to develop an orchard and they don't even produce anything until year 3.

Like so many dairy families we are waiting to see what the outcome of this FMMO process will be. I will share with you a little of our family plan for the Escalon dairy. If we get a FMMO plan that works for California dairymen I'm sure our banker will take us off the "5 year plan". Lord willing, we will then start to upgrade our older facilities and recommit ourselves to dairying in California.

Absent of that we will develop a plan to gracefully exit the California dairy business. Fortunately a few years ago we started diversifying and have many options as how to direct our modest assets. It does not even mean we would sell the cows. Loading them up on trucks and moving them to another state is a pretty simple process. It would not be our first choice to no longer milk cows in California. Although our facilities are older they could certainly continue to be viable with some remodeling. We have an excellent group of employees. We have a good herd of cows and I have been really excited recently as we are starting to see the results of genomic testing. We have good land in a good water area and enough acres to grow our own silage. We are a business that is willing to "learn and adapt."

My parents "jumped across the pond" when things didn't look promising for their goals and dreams. They came to love this country just as Lieske, myself and our children do. We believe in this country and the opportunities that exist now and in the future despite the talk of some naysayers. If dairying is something we no longer do in Escalon I am sure other opportunities exist and I believe we won't even have to "jump across the pond" to find them.

YEAR	CALIFORNIA	WISCONSIN	YEAR	CALIFORNIA	WISCONSIN	YEAR	CALIFORNIA	WISCONSIN
1945	5.7	14.9	1971	9.7	18.8	2001	33.2	22.2
1946	5.9	15.0	1972	10.4	19.2	2002	35.1	22.1
1947	6.0	15.0	1973	10.3	18.4	2003	35.4	22.3
1948	5.8	14.4	1974	10.6	18.7	2004	36.5	22.1
1949	5.9	15.0	1975	10.9	18.9	2005	37.6	22.9
1950	6.0	14.8	1976	11.6	20.2	2006	38.8	23.4
1951	6.0	15.0	1977	12.0	21.0	2007	40.7	24.1
1952	6.0	15.3	1978	11.9	21.3	2008	41.2	24.5
1953	6.6	15.9	1979	12.6	21.9	2009	39.5	25.2
1954	7.0	16.2	1980	13.6	22.4	2010	40.4	26.0
1955	7.2	16.5	Increase	4.1	4.0	Increase	8.2	2.7
1956	7.3	16.9	1981	14.2	23.0	2011	41.5	26.1
1957	7.7	17.4	1982	14.5	23.2	2012	41.8	27.2
1958	7.6	18.0	1983	14.7	23.8	2013	41.3	27.6
1959	7.9	17.8	1984	15.3	23.5	2014	42.3	27.8
1960	8.1	17.8	1985	16.8	24.7	Increase	1.9	1.8
1961	8.2	17.9	1986	17.2	24.5			
1962	8.3	18.6	1987	17.9	24.8			
1963	8.3	18.6	1988	18.6	25.0			
1964	8.5	19.4	1989	19.4	23.9			
1965	8.5	18.8	1990	20.9	24.2			
1966	8.6	18.1	Increase	7.3	1.8			
1967	8.7	18.2	1991	21.4	23.7			
1968	8.9	18.2	1992	22.1	23.8			
1969	8.9	18.0	1993	22.9	22.8			
1970	9.5	18.4	1994	25.2	22.4			
Increase	3.8	3.5	1995	25.3	22.9			
			1996	25.8	22.4			
			1997	27.6	22.4			
			1998	27.6	22.8			
			1999	30.4	23.1			
			2000	32.2	23.3			
			Increase/decrease	11.3	-0.9			

Exhibit A

YEAR	CSO 4b	FMMO III	C.A. Discount	Average CA Discount for Period	CSO 4b	Average Yearly CSO 4b Pool%	C.A. Discount neg. impact on producer price per 100 lbs. for period
2000	9.68	9.74	0.06		40%		
2001	12.61	13.10	0.49		44%		
2002	9.98	10.41	0.43		44%		
2003	11.24	11.42	0.18		45%		
2004	14.88	15.39	0.51	0.33	46%	44%	0.15
2005	13.70	14.04	0.34		48%		
2006	11.23	11.89	0.66		48%		
2007	17.46	18.04	0.58		47%		
2008	16.85	17.44	0.59		43%		
2009	11.05	11.36	0.31	0.50	40%	45%	0.23
2010	13.17	14.41	1.24		41%		
2011	16.37	18.36	1.99		43%		
2012	15.54	17.44	1.90		43%		
2013	16.42	17.99	1.57		44%		
2014	19.93	22.34	2.41		46%		
*2015	14.41	16.04	1.63	1.79	46%	44%	0.79

*January thru July months only.