EXHIBIT
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Testimony of Richard Sparrow
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Proposed California Federal Milk Market Order
November 12, 2015

My name is Richard Sparrow. I am a dairy farmer in north central Kentucky. The address of my farm is 1800 Old New Liberty Rd., Owenton, Kentucky, 40359. I am President of the Kentucky Dairy Development Council ("KDDC"), an advocacy group for the Kentucky dairy industry. The address of KDDC is 176 Pasadena Drive, Lexington, Kentucky, 40503.

I am testifying both as a southeast dairy farmer and as president of KDDC. I am also speaking on behalf of the Tennessee Dairy Producers Association, and have worked in collaboration with Everett Williams of Georgia Milk Producers, Inc. in developing these comments.

Introduction

I preface my testimony by expressing my strong support for this Cooperative effort to join the federal Order system in order to achieve more orderly marketing conditions and more equitable producer milk prices. In seeking these most vital objectives, dairy farmers always have been, and always should be, united to the extent possible.

Notwithstanding this heartfelt support, I am compelled to travel here and testify because of the potential negative impact the Department's preliminary analysis indicated the Cooperative proposal, as well as the other proposals, would have on the southeast dairy industry. The Department's analysis shows that the proposals would all lower producer prices in the southeast, and have the related adverse impact on milk production in our region. This would have a particularly damaging impact for us, as the southeast is already a milk deficit region. As I am sure California producers can understand, I must oppose establishment of a California Order if it would cause such significant harm in our region, notwithstanding the benefit it might provide for them.

On behalf of KDDC, therefore, we first ask that the Department consider the impact that establishment of a California Order would have on other regions of the country as an essential factor in its decision whether to adopt the Order. Further, we ask that the Department not establish the Order unless it concludes the Order will not reduce producer milk prices in other regions of the country, and/or milk production, and so not cause adverse harm outside of the California marketing area and milkshed. In support of this conclusion, the Department must be able to make express findings and document that the evidence presented at this hearing has overcome the Department's preliminary evidence indicating the original proposals would reduce milk pricing and production in the southeast. If the Department chooses to devise an alternative proposal, it must then find and document that the evidence demonstrates this revised proposal will not so harm the southeast.

We sincerely hope that the testimony received will allow for one of these outcomes so as to enable implementation of the California Order. In addition to explaining my and KDDC's concern prompted by the Department's preliminary analysis, my testimony also identifies some further actions KDDC believes the Department should take to enable that the Order, if established, will avoid new or ongoing harm to the Southeast.

In the alternative, if the Department concludes to adopt a California Order with evidence still establishing that it will lower milk prices in the southeast and other regions of the country, then the Department should include any such affected producers as part of the producer referendum required for final approval and implementation of the Order.

I. My Background

I graduated from the University of Kentucky with a degree in Animal Science in 1978. After graduation, I worked for three milk marketing cooperatives, throughout the southeast territory, for 33 years. At the start of my career, for a short time after graduation, I was employed as a Field Man for Cincinnati Cooperative Milk Sales Association, a small, southeast Ohio-based cooperative. In this capacity, I worked directly with dairy farmers helping to coordinate delivery of their milk shipments for processing. After Cincinnati Cooperative merged with four other cooperatives, I became a Field Supervisor for the resulting, consolidated, regional cooperative, Milk Marketing Inc. Promoted to Field Supervisor for MMI, I supervised fourteen field representatives.

I worked for MMI in this capacity for 20 years, until MMI merged with the three other cooperatives to form the national cooperative, Dairy Farmers of America. With the formation of DFA, I became a Regional Manager. As a Regional Manager, I oversaw two Field Supervisors and eighteen Field Representatives. I also conducted regional producer meetings, and provided market reports and milk pricing forecasts for our dairy farmer members. As a Regional Manager, I was also responsible for negotiating the contracts for the milk sales from my region to our processor-handler customers. I negotiated prices, including over-order prices, developed delivery schedules, and provided on-going customer service, in general.

After working for DFA from 1998-2011, I retired back home to Owenton, Kentucky, to build and operate a new dairy with my three sons. We milk 40-50 Brown Swiss. We are members of DFA; our milk is pooled in Federal Order 5 and shipped to the Kroger, Winchester, Kentucky plant.

I would add that I was raised in the dairy industry, and so with my professional work experience, I have been a part of the industry all my life. My grandfather was the head cheese maker at the Kraft Cheese plant in my home town, Owenton. I began doing odd jobs at the plant when I was ten and worked at the plant during my summers in high school, receiving raw milk in cans and performing laboratory test on milk and cheese.

During my lifetime I have thus observed and experienced the profound transformation and consolidation of the processor and cooperative sectors of the dairy industry, both regionally and nationally. Kraft, of course, during this time period consolidated its cheese processing plant capacity scattered across the country and moved it all westward. Among other consequences this shift in processing capacity provided a significant basis for the truly remarkable expansion of the California dairy industry. Not long after, DFA was formed so as to provide a national cooperative reach and marketing capability for dairy farmers, and Land O Lakes also greatly expanded its operations out from the Midwest to both the East and West coasts for the same purpose. Combined, these changes to the industry's two core sectors have now lead to this hearing for the establishment of a new California, federal Order.

II. Southeast Marketing Conditions and the Significance of Milk Pricing

Amidst these national changes, my professional experience working for the three dairy cooperatives revolved around the continuously challenging effort to provide a fluid milk supply for the southeast region. In his testimony, Cal Covington summarized our challenges as a milk deficit region. He noted that the ten southeast states now have an estimated 76.5 million people, or almost twice the population of California. He further identified that fluid milk consumption for this number of people requires 12.2 billion pounds of milk supply. Yet milk production in the southeast in 2014 was only 9.5 billion pounds, or a deficit of 2.7 billion pounds. When balancing and standardization are considered, according to Mr. Covington, the deficit of 2.7 billion pounds is more properly understood as 4.5 billion. This deficit is more than one third of the total supply required.

Mr. Covington also described how to make up for the deficit, we must import milk from other regions, either in bulk or packaged form. In both cases, transportation adds expense that must be borne by producers, processors and consumers alike.

Mr. Covington's testimony provides the frame for my work experience. On the one hand, with this deficit always in mind, we in the cooperative sector in the Southeast work constantly to maintain the sustainability of our member farmers, and also to grow their productive capacity, so as to be able to provide as much local supply as possible to our processor customers. On the other hand, given the ever-present deficit, we simultaneously confront the additional challenges presented by the need to import the required supplemental milk supply.

The crux of this dual challenge is producer prices. Higher milk prices make it far more possible to sustain, and grow, our existing, local milk supplies. Lower milk prices force farmers out, and thereby increase the pressure and need to import greater volumes of milk from away.

III. Additional Background – The Kentucky Dairy Development Council

This brings me to my work with the Kentucky Dairy Development Council, KDDC. Operating in a deficit market actually represents a tremendous market opportunity. And the structure of Kentucky's dairy farming segment holds promise for expansion so as to take advantage of this opportunity. Kentucky of course provides great commodity crops that can support productive dairy farms. Kentucky has a relatively large number of dairy farms for one state, 718 dairy farms, which ranks 12th, nationally, for licensed dairies. We produce 1.12 billion pounds of milk, ranking 27th, nationally in milk production. Yet we rank 42nd in milk production per cow, and the average farm size is only 88 cows per farm. We thus have a pretty good base, with a lot of capacity for growth.[1]

KDDC was formed in 2005, to educate, represent and promote the interests of Kentucky dairy farmers, and to foster an environment allowing for the growth of the Kentucky's dairy industry. This mission is being fulfilled by the development and implementation of a number of programs to educate Kentucky dairy farmers on business and production agriculture practices and to provide services that will enhance sustainability and profitability, and increased productivity. KDDC also concentrates on working to empower young people in pursuit of dairy farming careers.

KDDC is a 501(c)(3) non-profit, combined dairy farmer and allied industry organization. KDDC's board consists of 20 members. Twelve are dairy producers representing the dairy farmers who reside in KDDC districts. The remaining eight members are allied industry dues paying representatives of the other segments of the state's dairy industry.

KDDC has implemented a series of programs to promote top quality locally produced milk for Kentucky consumers. The umbrella program is the Kentucky Dairy Improvement Program, KDIP, which utilizes regional dairy consultants to provide information and services to any dairy farmer in KY. The Market Incentive Leadership for Kentucky, (MILK) Program was developed with the specific objective of increasing local milk production and quality. We also have the Young Dairy Producer Initiative, to provide leadership and management skills to active farmers 18 to 45 years of age and those interested in breaking into the dairy business.

KDIP relies on four dairy consultants who work directly with dairy farmers across the state. In addition to administering the three programs identified above, the consultants bring awareness to producers of the many other available loans, energy development and nutrient management programs offered by local, state and federal entities. The dairy consultants work in cooperation with UK Extension Specialists, Cooperative Extension Service County Agents, KY Department of Agriculture staff, and the wide range of experts in the many fields touched by dairy farm operation.

I would like to specifically highlight the Market Incentive Leadership for Kentucky, or MILK, Program. This program provides direct incentives to Kentucky producers to encourage increased production, and is one of the most dynamic programs of its kind in the nation. While I am not yet able to say that the program has succeeded in

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[1] Tennessee is similarly situated in the marketplace, with room for expansion. Tennessee produces 750 million pounds of milk, ranking 30th in milk production and 19th in the number of licensed dairies. At the same time, Tennessee ranks 41st in production per cow.

turning our production challenges completely around, the MILK Program has provided a true ray of hope that this objective is attainable. The benefits and success of this relatively new program, and the potential adverse impact on its success suggested by the Department's analysis, are the primary motivations for my appearance in this hearing.

The MILK Program's incentive premiums are drawn from a grant received by KDDC from the State of Kentucky's Agricultural Development Fund and matching funds provided collectively by Kentucky's milk handlers. To receive the premium payments, participating dairy farmers must increase actual pounds of milk marketed by a required percentage over an established yearly base, and their milk must meet or exceed a set level of quality standards. Producers must also participate in a production testing program (DHIA).

The program began in 2007. Since the program's inception, $5.6 million in incentive premiums have been paid to Kentucky dairy producers through December 2014. The total amount of milk produced by the MILK Program participants in 2014 was 562,061,145 pounds, which is just over half of Kentucky's total annual milk production.

Even more significant, during the cumulative time period of the program 2007-2014 over 412 million additional pounds of milk has been generated over base years' production. Utilizing the average FMMO mailbox price per hundredweight of milk over this time, the additional 412 million pounds of milk has yielded $82,409,768.00 of additional revenue for Kentucky dairy farmers. The program has thus leveraged the $5.6 million expenditure by a factor of nearly fifteen times.

The MILK Program also results in substantial transportation savings. The additional 412 million pounds of milk produced in Kentucky since 2007 has displaced the need for the transport of over 8,240 tankers loads of supplemental milk into the Commonwealth for processing. Federal Order Transportation Credits subsidize handlers at or near $0.005 per hundredweight per mile. For a 50,000 pound tanker load of milk that equals $2.50 per mile. According to information received from the Appalachian Market Administrator's office the average load travels approximately 400 miles to delivery in KY. This equals a cost of about $1,000 per load. The MILK Program has thus saved approximately $8,240,000 in transportation cost alone.

IV. Milk Pricing Concerns

With the same motivation, other states in the Southeast have also implemented programs with the same objective as the MILK program. These programs, along with the amendments to Class I differentials and pooling requirements established by the 2007 FMMO hearing for the three Southeast Orders, have resulted in a slight upward trend since 2010 in milk production in the Southeast. It is critical to all segments of the dairy industry in the Southeast-- producer, processors, and consumers - that this upward trend in production continue to increase in order to provide for the fluid milk needs of our ~~the~~ market.

Again, milk prices are the key to all of this. We are thus deeply concerned by the Department's preliminary analysis, which indicates that all of the proposals for a California Order will reduce Southeast producer prices. KDDC's concern is that that such a price reduction will offset the gains we have made, particularly with the MILK program, and set us again on a downward, rather than upward, trend in milk production.

Here is a summary table of the Department's analysis of the different proposals' impact on Southeast producer prices, prepared and presented by Mr. Covington.

Southeast - Changes in Blend Prices at Test (2017-2024)

Proposal	Average ($/cwt.)	Minimum ($/cwt.)	Maximum ($/cwt.)
Cooperative	-$0.26	-$0.34	-$0.13
CPHA	-$0.25	-$0.34	-$0.13
Ponderosa	-$0.25	-$0.32	-$0.13
Dairy Institute	-$0.24	-$0.75	$0.33

Overall, for the State's total annual milk production of 1 billion pounds, or 1 million cwt, the average loss caused by the Cooperative proposal would be just over $2.6 million, annually. This would wipe out half of the value of the production incentive payments that have been made under the MILK Program. This loss is projected to increase to $3.4 million for 2024 (the projected "Minimum" in Mr. Covington's Table)

IV. Milk Marketing and Production Concerns

The Department's additional analysis confirms our concerns about the likely impact that will result from this reduction in producer prices. As Mr. Covington testified, the Department's analysis indicates that milk production will be flat in the near future, and decline over time. The Department's Table 5 confirms his assessment with regard to the Cooperative's proposal. Here are the Department's calculations of the impacts the Cooperative's proposal would have on milk production in the three southeast Orders:

TABLE B5: Milk Production Changes under the Cooperative Proposal

	Units	2017	2018	2019	2020	2021	2022	2023	2024	Avg	Min	Max
AP	Bil. LBS	-0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.00
FL	Bil. LBS	0.00	0.00	-0.01	-0.01	-0.01	-0.02	-0.02	-0.02	-0.01	-0.02	0.00
SE	Bil. LBS	0.00	0.00	-0.01	-0.01	-0.02	-0.03	-0.05	-0.07	-0.02	-0.07	0.00

As may be seen, milk production is at best flat throughout the region. For the southeast, there would be an accelerating decline, over time.

V. Proposed Department Actions

In my introduction, I stated that the Department must account for the potential impacts that imposition of a California Order will have on other regions of the

Country. Again, on behalf of KDDC, I here ask that Department consider the impact that establishment of a California Order would have on other regions of the country as an essential factor in the Department's decision whether to adopt the Order.

Further, we ask that the Department not establish the California Order unless it concludes that the Order will not reduce producer milk prices in other regions of the country, and/or milk production, and so not cause adverse harm to other regions of the country. If the Department is to adopt the Cooperatives' proposal, or one of the other proposals, the Department should be able to make express findings and document that the evidence presented at this hearing has overcome the Department's preliminary evidence indicating the selected proposal would reduce milk pricing and production in the southeast. If the Department is to devise an alternative proposal, it should similarly make express findings and conclusions ensuring that its revised proposed California Order would cause no such harm to the southeast.

If the California Order may be so adopted, we further propose that the Department include provisions that anticipate the impacts that will be experienced in other Orders, over time. I defer to the expertise of the Department and others as to what these provisions might be, but here emphasize that the Department must account for the Order's impact over time rather than just its immediate impact.

In the alternative, as also requested in my Introduction, if the Department concludes to adopt a California Order with evidence still establishing that it will lower milk prices in the Southeast, or any other region of the country, then the Department should include producers in these other regions as part of the producer referendum required for final approval and implementation of the Order.