



**Testimony of the
California Dairy Campaign (CDC)
Before the United States Department of Agriculture (USDA)
Hearing on A California Federal Milk Marketing Order
Clovis, CA**

My name is Lynne McBride and I currently serve as Executive Director of the California Dairy Campaign (CDC). CDC is a grassroots organization representing dairy farm families throughout California. The testimony I will present today is based on positions adopted by the CDC Board of Directors. CDC is a member organization of the California Farmers Union, a state chapter of the National Farmers Union.

I would like to begin by thanking the United States Department of Agriculture (USDA) for holding this hearing to consider proposals to establish a federal milk marketing order in California. The California Dairy Campaign (CDC) strongly supports the federal order proposal put forward by the state's major dairy cooperatives including California Dairies, Inc., Dairy Farmers of America Inc., and Land O'Lakes, Inc.

Since our organization was founded, we have called for California to join the federal milk marketing order system to bring our prices and the process for determining prices in line with the federal order system. The failure of our state system to align prices paid to dairy producers in California with prices paid in the federal order system has cost dairy producers in our state more than \$1.5 billion since 2010. Our organization firmly believes that the only way to restore equity to dairy producer pricing in our state is by joining the federal milk marketing order (FMMO) system. The federal order proposal put forward by the cooperatives will comprehensively address our state's unique marketing conditions, align dairy producer prices here with prices paid in the federal order system, restore orderly marketing conditions and sustain dairies across the state.

Economic Conditions Warrant Adoption of Cooperatives Federal Order Proposal

According to the 2015 California Department of Food and Agriculture (CDFA) "Dairy Statistics and Trends Mid-Year Review," 1434 dairies remain in operation in our state, a decrease of more than 600 dairies over the last 10 years according to CDFA data. California dairy producer prices routinely rank last in the nation and dairy producer income continues to be well below average production costs. Statewide the average cost to produce milk now totals \$19.12 per cwt. according to the latest "CDFA Statewide Cost Comparison Summary." The latest data from

the “California Dairy Review” indicated that the Overbase price totaled \$14.32 in July, well below average production costs resulting in mounting losses for dairy producers across the state.

Although dairy producer prices did improve in 2014, prices have remained well below production costs throughout 2015 and are likely to remain so in the coming months. It is important to recognize that although prices did improve last year, higher prices did not last long enough to make up for the tremendous losses that dairy producers have incurred in recent years.

Throughout 2015 dairy producer income has failed to cover average production costs. Combined with the great uncertainty about water and feed availability due to the ongoing historic drought, dairy farmers in California today face unprecedented economic challenges. Dairy farmers are price takers, not price setters and are not able to pass on additional costs which makes equitable pricing regulations all the more important in our state. Dairy producers in California simply cannot afford to be paid some of the lowest mailbox prices in the nation due to the failure of our state order to pay dairy producers prices that are reasonable compared to other states. Joining the federal order will end this longstanding inequity and we support the cooperatives federal order proposal to establish a federal order in our state.

Decline in Number of Dairies

We believe a significant reason for the decline in the number of dairies in California is largely due to the fact that dairy producers in our state are paid significantly less than dairy producers in the federal milk marketing order (FMMO) system. A number of our dairy producer members have closed their dairies in recent years and some have chosen to move their dairy operations to other states. It is important to recognize the factors that contributed to the decision by these dairy producers to close their dairies and how it relates to the failure of our California State Order to establish minimum pricing formulas that are equitable compared to pricing formulas in the federal order system.

We have seen many of our dairy producer members close down their operations because they did not see a future for themselves here in California largely due to the fact that dairy producer prices are some of the lowest in the nation. Dairy operations of various sizes have closed or moved to other states because it just didn't make sense to remain in operation here given the economic hardship they endured in our state. We continue to see additional cows sold because the economic pressure to stay in business simply becomes too great. One longstanding member of our board of directors understood the importance of California joining the federal order system, but he simply couldn't afford to wait for conditions to improve. He moved his dairy operation to a federal order state and is now being paid considerably higher prices for the milk he produces.

We simply would not continue to see so many of these dairies go out of business if our California pricing system had paid dairy producers an equitable price. It is well documented that milk production has been on the decline each month of this

year and this trend is likely to continue. Milk production figures in July confirm that milk production decreased by 3.3% during that month according to CDFA's "California Dairy Review." Many continue to question the future for dairies in California unless conditions improve and adoption of the cooperatives proposal to establish a federal milk marketing order would improve conditions here considerably.

California State Order Fails to pay dairy producers an equitable price

We believe that the California State Order has failed to pay dairy producers prices that are equitable compared to prices paid in the federal order system. We have long held that the California State Order does not give enough consideration to dairy producers. We have participated in numerous California Department of Food and Agriculture hearings to consider changes to the pricing formulas. However, due to the fact that the California system gives the CDFA Secretary broad authority to determine dairy pricing policies, dairy producer prices in our state are misaligned with the federal order system.

The disparity between our 4b cheese price and the equivalent federal order Class III price is a significant reason for the misalignment in pricing considering that from January through June of this year, cheese production totaled 45.5% of all milk pooled in our state, according to CDFA. The average difference between the California 4b price and the equivalent federal order Class III price totaled \$1.89 per cwt on average from August 2012 to today.

We repeatedly testified during California Department of Food and Agriculture (CDFA) hearings to consider changes to the pricing formulas. During the last hearing, CDFA Secretary Karen Ross granted a one-year temporary increase in the 4b formula that brought the 4b price closer to the Class III price. We welcomed the price increase which we considered long overdue. But it is important to recognize that Secretary Ross did not grant the increase to bring our dairy producer prices in closer alignment with federal milk marketing order prices. She granted the temporary increase to provide short-term relief to dairy producers and address the challenges caused by the statewide drought.

The latest cost of production data available from CDFA is the first quarter of 2015 which reports the cost to produce milk in the state totaled \$19.12 per cwt. The California mailbox price for May was \$14.72 per cwt, indicating that income that month was nearly 25 percent below average production costs. Since then prices paid to producers have continued to remain substantially below production costs.

The fact that our state system underpays dairy producers compared to other states has caused California dairy farmers to be paid on average more than \$1 per hundredweight less than dairy farmers in the federal milk marketing order system leading to a more than \$1.2 million loss in income for the average size dairy since January 2011. Had our state dairy system paid California dairy producer prices that were in line with prices paid in other states, the losses dairies suffered would not have been as great and more California dairies would be in operation today. The closure of dairies causes irreparable harm to the local

and regional economy and the social fabric of the affected communities especially given that many of these dairies have been in operation for generations.

We along with other dairy producer organizations have called for an end to this price disparity, however, up until now the California Department of Food and Agriculture (CDFA) has failed to restore equity to our dairy pricing system. Joining the federal order through the adoption of the cooperatives federal order proposal is the only viable way to restore equity to our dairy pricing system.

Despite the challenges faced by California dairy producers, California continues to be the nation's leading milk producing state, yet dairy producers are not able to find markets if they want to change to a new buyer. Due to the consolidation and concentration that exists and the lack of competition in the marketplace, the minimum prices are more critical than in other parts of the country where more buyers of milk exist. Minimum prices are more important than any other time in our state's history because of the number of dairies that have exited and those that are likely to exit unless our state prices are brought in alignment with prices paid in other states.

The unprecedented statewide drought continues to put additional stress on dairy producers due to a decrease in water availability that is decreasing the acreage planted for forage crops. A California Milk Advisory CMAB report on the dairy industry states, "The economic health of the California dairy industry depends crucially on a healthy local forage industry to supply silage, hay and other forages that are too bulky to economically haul long distances." It goes on to explain that, "California dairy farms use mainly California-produced forage feeds and grains and high-protein feed shipped into the state from elsewhere." Dairy producers in our state are going to continue to be paying more for forages this year and in years to come making it all the more critical that minimum prices in our state are comparable to other states.

In addition, the new dairy margin insurance program established in the last farm bill is based on the "All Milk" price which is significantly higher than the California mailbox price. During the sign up period for the DMPP last fall, information circulated by UC Davis estimated that the California mailbox price was approaching \$2.00 per cwt lower than the "All Milk" price used in the new program. Now under the new farm bill, dairy producers in California are at a greater disadvantage due to the fact that prices in our state are significantly below prices paid in other states resulting in far less of an effective safety net for dairy producers here when margins decline. Also the fact that dairy producers in California are paid significantly below prices in the rest of the country makes it more difficult for them to participate in risk management programs that dairy farmers in other states employ.

Dairy operations cannot continue to sustain chronic losses while there is considerable profitability experienced further up the food chain. Minimum prices are put in place to ensure that dairy farmers are able to share in some minimal level of profitability. Joining the federal order system will establish equitable

minimum prices, improve the outlook for dairies across the state and enable the next generation of dairy producers to have a brighter future than the one that exists today.

CDC Strongly Supports the Cooperatives Proposal

The California Dairy Campaign strongly supports the federal order proposal put forward by the cooperatives because it effectively addresses key issues important to the dairy producers we represent. The major issues that we consider paramount to a successful federal order proposal include: end-product pricing formulas currently used in other federal orders; continuation of the state quota system; effective milk pooling regulation; similar treatment of out-of-state milk and producer-handler provisions as under other federal orders, fortification standards and other issues.

Our organization strongly believes that dairy producers should be paid uniform prices for manufacturing milk and the cooperatives proposal would ensure this pricing standard. Our dairy producer members support the continuation of the state quota program and the cooperatives proposal would achieve this important goal and ensure the investments made by dairy producers in the quota program remain intact. We strongly supported passage of the “California Federal Milk Marketing Order Act” to enable California to retain its quota program under the federal order system. The proposal put forward by the cooperatives would make certain that the quota program would continue to function as it has and will be administered by the California Department of Food and Agriculture. Given the significant value of the quota program and the investments that dairy producers have made in this program, we believe it is critical that it continue under the federal order system and the cooperatives proposal will ensure the value of the quota program is maintained.

One key characteristic of the California market is the amount of manufactured milk produced in California. The pooling provisions in the cooperatives proposal are essential to establish and maintain orderly marketing conditions in a California federal milk marketing order. We consider the federal order proposal put forward by the cooperatives to effectively address the distinct milk utilization in the California milk market while at the same time integrating the California federal order with the federal milk marketing order system as a whole.

We support the provisions in the cooperatives proposal that will adopt the federal milk marketing order definitions and regulations for producer-handlers; similar treatment of out-of-state milk as under other federal orders; allowances for fluid milk fortification among other aspects of their proposal.

In conclusion, for far too long California dairy producers have had to endure disorderly marketing conditions due to the fact that prices paid to dairy producers in our state were not equitable compared to prices paid in the federal order system. We urge the adoption of the cooperatives federal order proposal because it would establish orderly marketing conditions for California dairy producers. We thank the United States Department of Agriculture for the opportunity to present our testimony today.