Testimony of

National Farmers Union

Before the
United States Department of Agriculture (USDA)

Hearing on a
Proposed Federal Milk Marketing Order
For California

Monday, October 5, 2015
Clovis, CA

Presented by
National Farmers Union Senior Vice President
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Thank you for the opportunity to speak today on behalf of National Farmers Union and our 200,000 members. NFU is a grassroots organization that is guided by a policy handbook written and approved entirely by our members. The mission of NFU's staff is to advocate for the policy prescriptions contained within that handbook.

This hearing is of particular importance to our California members, but also to our organization as a whole. As part of our 2015 policy, members set expectations over the federal order system. NFU believes that the orders should be maintained and expanded to include all areas within the continental United States. A national milk marketing order and pricing reform should emphasize maximum return to producers. Our policy also holds that the establishment of a federal milk marketing order should include California so that California dairy producer prices are brought in line with prices paid in the federal order, which will benefit all dairy producers nationwide. We support the proposal put forward by California Dairies, Inc., Dairy Farmers of America, Inc., and Land O'Lakes, Inc. to establish a federal milk marketing order in California.

As I mentioned, this is an important issue for our California members, but I would like to stress that this is also important to our members outside of the state. Our organization has a strong presence in Minnesota and Wisconsin, major dairy producing regions and a continually growing presence in New England, a historical, but still significant dairy producing region. In each case, those members support the efforts of dairy farmers here today.

As many here are aware, since 2010 certain California and FMMO classified milk prices have shown a much wider divergence that has resulted in lower prices to California manufacturers, thereby providing a cost advantage for their business, while at the same time producers have seen drops in farm gate prices. Dairy producers in California have seen the cost of purchased feeds for their operations increase dramatically. Lower milk prices and higher purchased feed costs have combined to pinch dairy margins in the state and have contributed to the closure of dairies across the state. In the last five years that has totaled over 400 operations.

The significance of California dairies is well known. As the top producer in a number of products it is the most important region that is not part of the federal order system. In recent years we have witnessed changes in US milk markets and as such FMMO regulations have evolved to fit those changes. The system in California cannot say the same thing. It has become more and more difficult for California dairies to operate under the California system. In fact, a recent submission by CA cooperatives to USDA AMS shows that California's failure to establish minimum prices to producers, which reflect national values for classified milk, has cost the states dairy farmers more than $1.5 billion since 2010.

As you all know the differences between the federal system and the California system has resulted in disorderly marketing; the inverse goal of the federal system. The most pronounced problem is CDFA's Class 4b pricing system as it relates to FMMO Class III pricing formula. 4b and Class III have rarely been equal and in recent years have created a delta that is negatively impacting producers. The difference in that average continues to this day.

As a general farm organization we count dairy producers from all the major dairy producing regions as members. A member in Wisconsin or Minnesota experiences vastly different regulatory minimum prices for milk used to produce cheese and whey products than that of members in California. That's reflected whenever there are significant downward pressures within dairy pricing. It is our California members that are always calling us first because their income over feed cost margins are the thinnest. These producers need a system that prevents, or at least softens, this harsh cycle.

This cycle has in part played a role in the shuttering of dairies across the state. In 2005 this state was home to 2043 dairies. Today, according to CDFA, California has 1435 dairy farms. While correlation does not imply causation, California's dairy pricing structure deserves substantial blame for its role in these closures. We can be certain that the drought's impact has played a significant role. After all, producers without water are paying for additional wells to be drilled or are paying astronomical sums for water to be delivered. Feed costs continue to increase as more land has to be fallowed, which previously grew alfalfa and more and more feed grain comes in from out of state. The cost of production, which would be challenged by these increases in a normal scenario are made all the worse because producers have been underpaid for their products. Years of underpayment have left producers much more susceptible to the impact of drought and lower prices due to recent slumping demand.

The latest cost of production data available from CDFA is the second quarter of 2015 which reports the average cost to produce milk in the state totaled $18.74 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 federal government, through the 2014 Farm Bill, continued to alter the dairy safety net. As such dairy farmers are increasingly utilizing risk management strategies as a critical component of survival. As producers gathered here today know, the dairy safety net is not very thick. Each tool is of the utmost importance and ensuring that each tool is available to every producer across the country is critical. Unfortunately, due to the divergence of Class III and Class 4b, California's ability to utilize the futures market to hedge is severely impaired. The difference in settling prices do not offset on a one-to-one basis, making this tool's effectiveness questionable. Its questionable use only takes a tool out of a toolbox that is already weakly stocked.

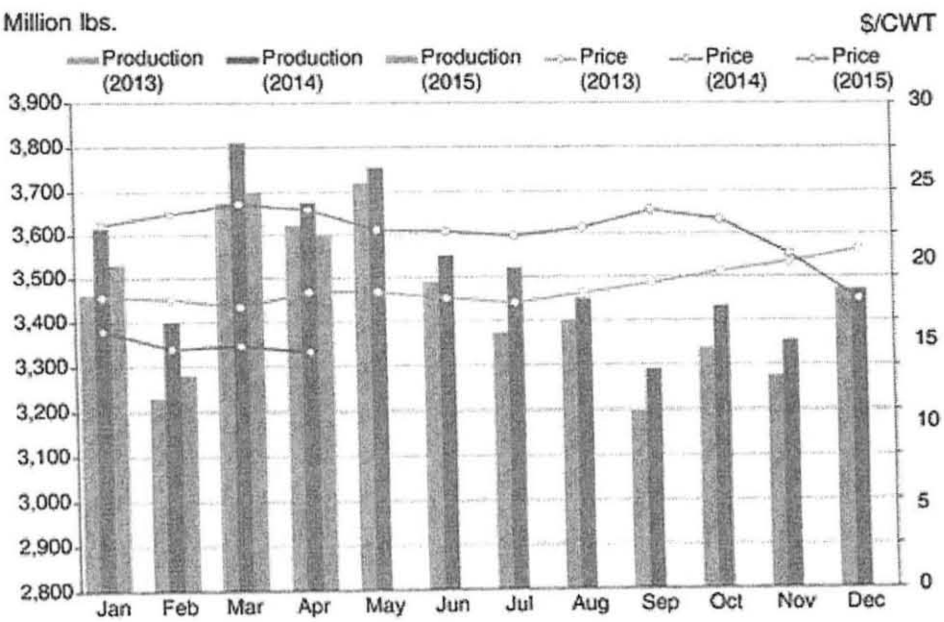
California dairies are in a much less competitive position to bid for land, cattle, feed, labor, and other services than those operating within the federal system. This led our California members to work with us and the Senate and House Agriculture Committees beginning in 2011 as we worked to craft the legislation that ultimately became the 2014 Farm Bill.

The 113th Congress saw the introduction of two standalone bills. One bill in the House of Representatives and one bill in the Senate, which would allow California to enter into, after a referendum, the federal order system. These bills enjoyed wide and bipartisan support from the state's congressional delegation. The standalone bills were ultimately rolled into the 2014 farm Bill which reinstituted the following language, first passed in 1996, authorizing a California Federal Milk Marketing Order:

> "Upon the petition and approval of California dairy producers in the manner provided in section 8c of the Agricultural Adjustment Act (7 U.S.C. 608c), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, the Secretary shall designate the State of California as a separate Federal milk marketing order. The order covering California shall have the right to reblend and distribute order receipts to recognize quota value."

NFU was proud to support this legislation and the process it established, which brought us all here today. NFU is thankful for the opportunity to testify today. We would urge voting members of the referendum to vote in favor of joining the federal system for the benefit of the state's dairy producers. We believe this step will increase minimum prices paid to producers, which in the end could prevent the ongoing closures of dairies that we have seen over the last ten years in this state.

Figure 2
California milk production and prices received, 2013-2015



Source: USDA, National Agricultural Statistics Service.