



**Testimony of
California Dairy Campaign (CDC) Board Member Joaquin Contente
Before the United States Department of Agriculture (USDA)
Federal Milk Marketing Order Hearing in Carmel, Indiana
September 2023**

My name is Joaquin Contente, and I am the second-generation son of Portuguese immigrants and a lifelong dairy producer from Hanford, CA. My daughter, Claudine, is actively involved in handling all the paperwork required to run a dairy in the state of California, as well as herd health and our calf operation. My son, J.T., oversees all the equipment and maintenance on the dairy, including ongoing irrigation duties. Over the last decade, we have lost over 25 dairies within a five-mile radius of our dairy. These multigenerational dairies, many of them award-winning with high production, are gone forever. The number one cause that led to the closure of these dairies and so many others is the tremendous volatility in milk prices paid.

I serve on the board of the California Dairy Campaign (CDC), which was founded over 25 years ago and is a grassroots organization representing dairy farmers throughout California. CDC is a member organization of the California Farmers Union (CFU), a state chapter of the National Farmers Union, a farm organization representing more than 230,000 farmers and ranchers nationwide. In March, I was part of the effort in San Francisco at the National Farmers Union (NFU) Annual Convention to pass a special order of business in support of adding high-moisture cheese like mozzarella to the pricing formulas. The NFU special order included opposition to an increase in the make allowance. In addition, I serve as a board member of the Organization for Competitive Markets (OCM), which also supports the dairy priorities outlined in the NFU special order, including opposition to a make allowance increase and adding mozzarella in the Class III formula.

I and other dairy producers opposed the call for this hearing because it could lead to an increase in the make allowance. I am here representing not only myself but also many other dairy producers who are reluctant to step up and speak out at this hearing in opposition to what is being said by milk handlers out of fear of retribution. As the industry consolidates and the number of milk handlers diminishes, this fear of speaking out has become more intense.

Now that a hearing is underway, we support changing the Class III pricing formula to reflect the value of the cheese market today more accurately. The federal orders calculate milk prices based on end product prices, and it is essential to include the largest cheese

category, mozzarella, in the end product price calculation. The volume of mozzarella has now significantly exceeded that of cheddar, and the Class III price should be modified to reflect these market conditions.

According to the United States Department of Agriculture (USDA) Dairy Products 2022 Summary published in April this year, Mozzarella production totaled 4,497,175,000 pounds, while cheddar totaled 3,963,741,000 pounds. Total cheese production in 2022 totaled 14.1 billion pounds last year. Mozzarella has surpassed cheddar in total cheese production and should no longer be ignored in the federal order pricing formulas.

FMMO Hearing 2000 – Mozzarella Ignored in the Class III Pricing Formula

During the federal milk marketing order hearing in Virginia in 2000, I raised the issue of the importance of mozzarella to calculate the Class III price. During my testimony, I questioned a nationally recognized cheese expert about mozzarella, who confirmed then that mozzarella was being ignored in the federal order pricing system.

Although mozzarella now exceeds cheddar cheese production, no change has been made in Class III to reflect the higher value and higher volume mozzarella market. Since 2000, the demand for mozzarella cheese has grown dramatically. Despite the higher production of mozzarella cheese and the growth in this cheese category that is expected to continue, Class III prices ignore this important and growing segment of the cheese market.

Dairies Exiting

In July, the Statistical Uniform Price (SUP) in California totaled \$15.53 per cwt while the average cost of production in our state totals more than \$23 per cwt, according to the latest United States Department of Agriculture (USDA) Economic Research Service (ERS) Milk Cost of Production Estimates. This past winter, it was extremely challenging to maintain reasonable costs for feeding the dairy herd, making it difficult to cover our costs. It was worse than the crisis of 2009 because all our costs were going up while the milk prices paid were going down dramatically, dropping more than 30 percent. It is a classic example of the volatility that dairy producers constantly face. Our milk check deductions are higher than ever, and the average mailbox or net price in July was in the \$14 per cwt range based on standard component levels.

Multigenerational dairies are going out of business all around me due to chronically depressed milk prices that fail to cover production costs. Dairy farmers want to get off the roller coaster of volatile and chronically depressed milk prices. An increase in the make allowance, as called for in multiple proposals before this hearing, will worsen the crisis dairy farmers face. Many dairy farmers agree with our proposal to add mozzarella to the Class III and oppose increasing the make allowance. As I have said before, with so few milk handlers, most dairy producers are not interested in speaking out publicly against a position taken by their milk handler, be it their cooperative or propriety plant.

Milk handlers need to look further up the food chain to cover their costs, not carve out higher make allowances from dairy producer milk checks. A proposal to update the make allowance more frequently is even more concerning. The current voluntary unaudited manufacturing cost surveys relied on to determine make allowances represent a small

fraction of the manufacturing plants nationwide. We oppose any attempt to increase the make allowance based on these unreliable cost studies. In addition, the current make allowances include a return on investment. Dairy farmers have no similar guaranteed return on investment enjoyed by processing plants, and ROI should be removed from the make allowance calculation.

Concentration and Consolidation Increasing

Growing concentration affects all aspects of dairy pricing. It has undermined price discovery because fewer buyers and sellers are in the market today. California Dairy Campaign's proposal to add mozzarella to the Class III pricing formula aims to improve overall dairy price transparency by expanding the United States Department of Agriculture's mandatory price reporting system to add additional products like mozzarella.

Given the concentration and consolidation that exists, minimum prices paid by the federal milk marketing order system are critical to ensure dairy farmers are paid prices based on current market conditions. Retail prices follow commodity prices upward rapidly but fall back slowly and partially when commodity prices decline. There is profitability further up the food chain, and dairy producers should not be required to pay more in make allowances to cover plant costs.

In conclusion, the federal milk marketing order system exists to protect dairy farmers from dairy processors. As changes to federal order pricing are considered during this hearing, it is essential to recognize the foundational importance of federal order regulations to establish minimum prices paid to dairy producers. We oppose any increase in the make allowance because it will further reduce milk prices paid to dairy farmers already being paid milk prices well below production costs. USDA must add mozzarella to the Class III pricing formula so that our end product pricing system reflects dairy prices sold today. If we are going to use this system for price discovery, the largest category, mozzarella, should no longer be excluded.

The end-product pricing formulas should reflect end-product prices in today's market. Mozzarella is the largest segment of the cheese market, so it must be incorporated into the Class III end-product pricing formula. I thank you for the opportunity to testify today.