

**United States Department of Agriculture
Before The Secretary of Agriculture**

**In re: [Docket No. 23-J-0067; AMS-DA-23-0031]
Milk in the Northeast and Other Marketing Areas**

Hearing beginning August 23, 2023

Testimony Presented By:

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Representing

Dairy Farmers of America

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Hearing Subject Area: Class I and Class II Differentials

Hello, my name is Johnny Hiramoto. I am here on behalf of Dairy Farmers of America, Inc's (DFA) Western Area. The Western Area is one of the seven fluid area divisions within DFA. Currently, Western Area has 203 farmer-owners in California and Northern Nevada, producing over 600 million pounds of milk per month. Currently, the majority of the milk is pooled in Federal Order 51. One hundred percent of Western's member milk is transported by either a third-party hauler or by the farmer-owners themselves. Milk is delivered throughout the state of California and Northern Nevada. DFA also operates six manufacturing facilities in California and one in Northern Nevada. These facilities receive, raw milk, cream, and condensed skim milk and make a variety of products including, but not limited to, cheese, whey, HTST and ESL fluid milk and milk products, nonfat dry milk, whole milk powder, and other specialty dairy products. All but one of these DFA-owned facilities receive raw milk from our farmer-owners.

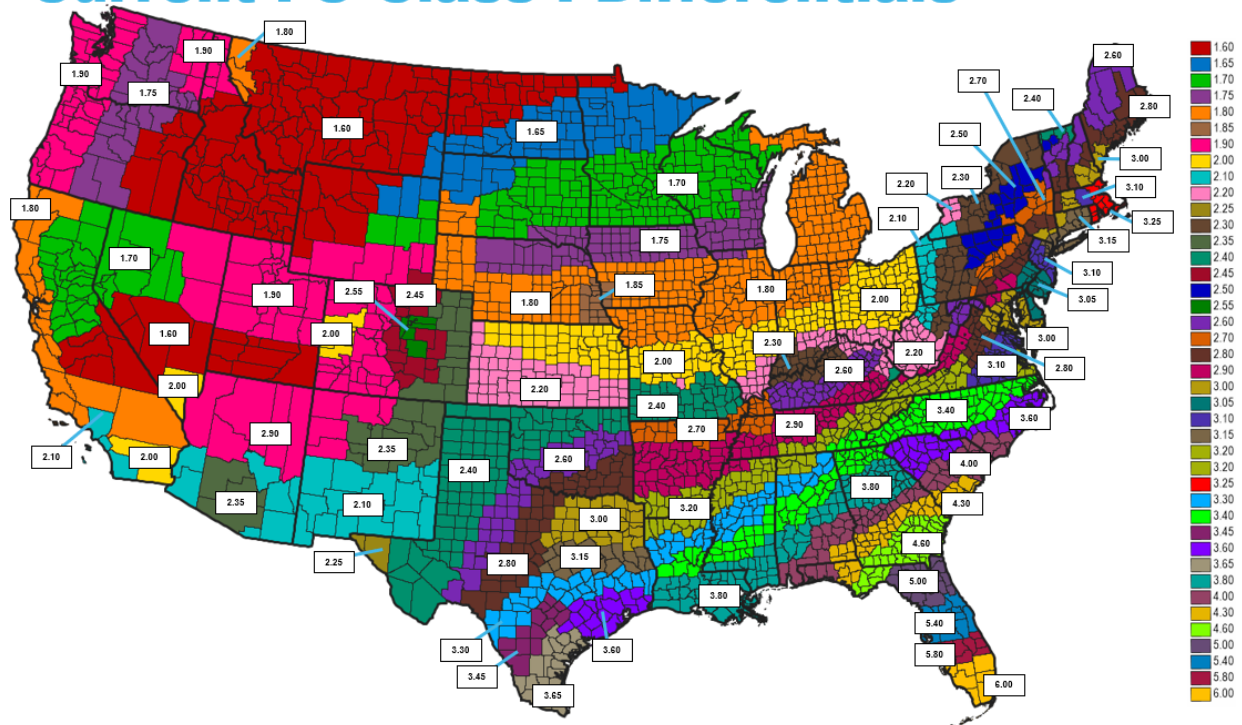
For almost 25 years, I have had various roles in DFA, mainly in California. Currently, I am the Director of Accounting and Marketing Information for Western Area. My duties include, monthly closings, financial reporting, regulatory reporting, budgets, market forecasting, compilation of historical data and statistics, and I act as a customer, vendor, and regulatory liaison. The best thing about my work is getting to know the farmer-

owners and their families. Understanding that what I do can positively affects these farm families is truly rewarding.

I am here today in support of Proposal 19, submitted by the National Milk Producers Federation (NMPF), to modernize the national Federal Order pricing surface and Class I differentials. My testimony will focus on the price surface proposal for Northern Nevada and California. Below are maps that show current, proposed, and the difference between proposed and current, location differentials, both, nationally and the regions I will be focusing on.

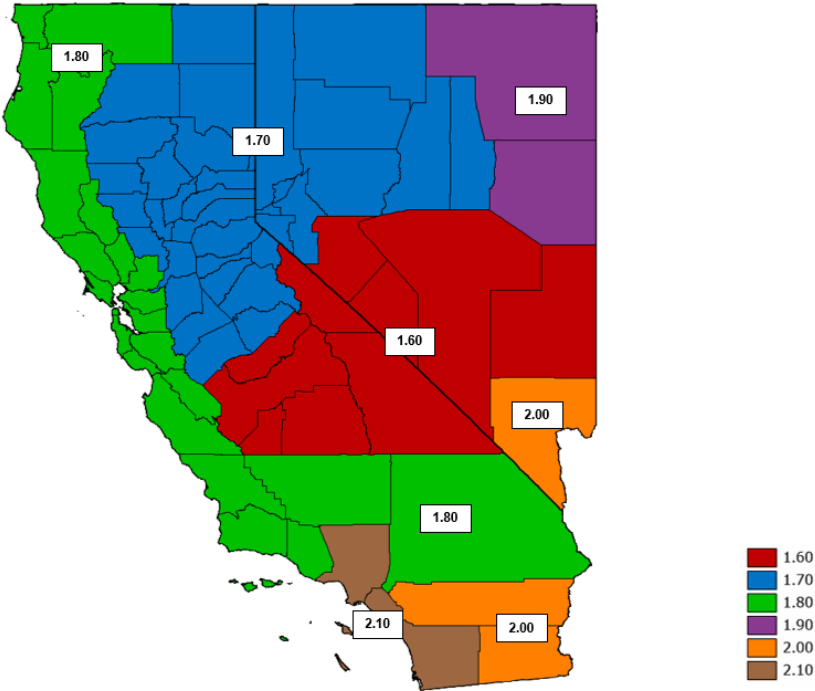
MAP 1 – CURRENT (NATIONAL):

Current FO Class I Differentials



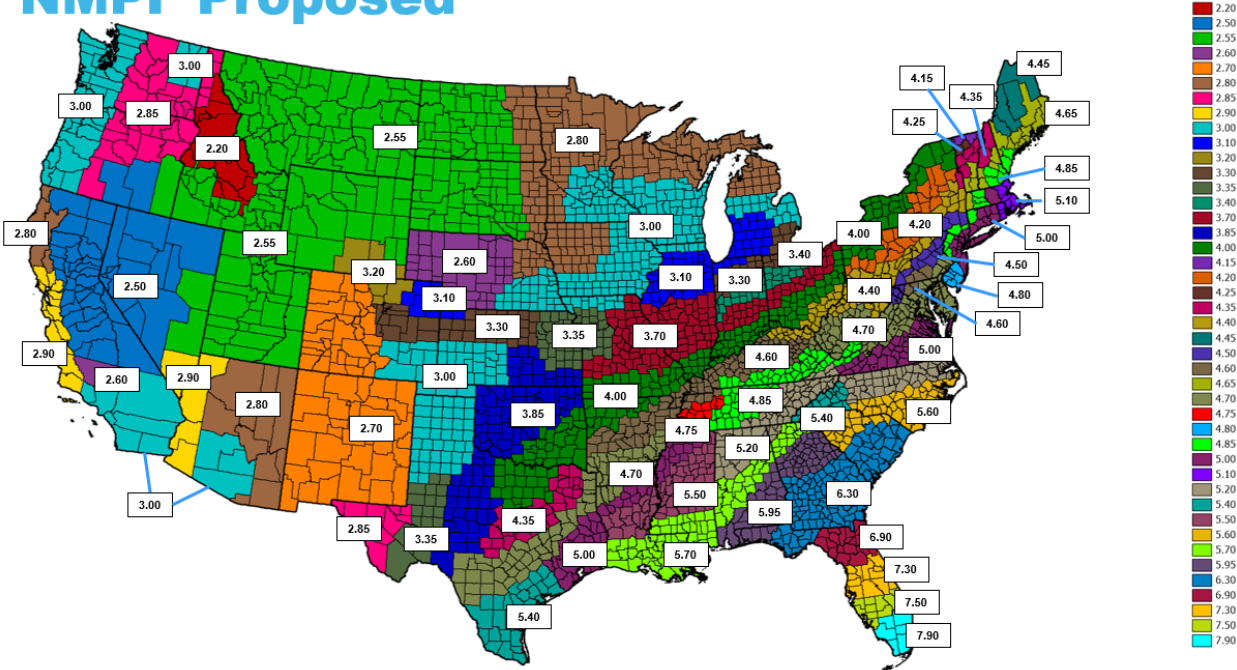
MAP 2 – CURRENT (CALIFORNIA & NEVADA):

Current
Western Area



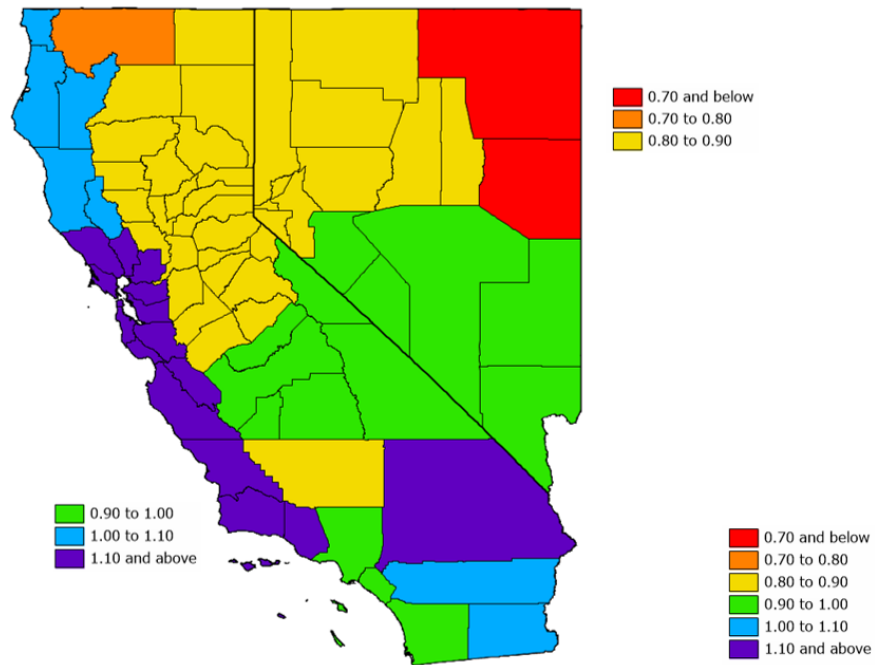
MAP 3 – NMPF PROPOSED (NATIONAL):

NMPF Proposed



MAP 6 – NMPF PROPOSED VS CURRENT (CALIFORNIA & NEVADA):**NMPF Proposed vs Current**

Western Area



In addition to supporting, the testimony of Mr. Vandeneuvel of California Dairies Inc. regarding California, I would first like to discuss Northern Nevada. Nevada has Class I operations in and around Las Vegas (Clark County) and Reno (Washoe County). DFA operates a medium-sized manufacturing plant in Fallon (Churchill County). Washoe County and Churchill County are in Northern Nevada. Currently, Washoe and Churchill counties have the same differential as milk-producing counties directly to the east in California. These counties in California have a mix of Class I plants and manufacturing plants. It is necessary to continue a similar price surface between these plants in this bi-state region to maintain competitive equity for them relative to blend prices under the California order, see MAP 2.

Historically, Washoe and Churchill counties and other counties in Northern Nevada, have followed the pricing structure of Northern California, see MAP 2. These counties have a strong and historic association with Northern California. Prior to November 2018, while California still operated under a state order, Nevada had adopted the same basic pricing structure in place in Northern California for use in Northern Nevada. When

California began operating under the Federal Order system, Nevada once again utilized California's pricing structure, adopting the Federal Order 1.70 pricing differential, the same as Northern California.¹

Additionally, a plant in Northern Nevada has consistent route distribution in Northern California. We support the relationship that Northern Nevada and Northern California have historically held which continues today. We believe this will continue to keep all handlers competitive in both regions. The proposed value for Clark County, Nevada, is 2.90 value. Other NMPF member cooperative witnesses will be providing testimony about this area and DFA agrees with the 2.90 value and recommends its adoption.

NMPF supports consolidation of California's 1.60 and 1.70 zones to the new 2.50 zone. Milk and route distribution in both zones moves interchangeably between the zones. We also agree with Mr. Vandenheuvel's testimony that during the 2000 Federal Order Reform, California was operating under a state order, and we almost assuredly did not scrutinize as we would today, the differentials assigned, as they played little to no role for us. Almost 19 years later, with California adopting a Federal Order in November 2018, the differentials were not suitable. They did not reflect accurately the cost of moving milk and provided little incentive by themselves to route milk to Class I plants, particularly in the large Northern and Southern California urban areas. We scrambled to adjust, adapt, and ultimately arrived at price mechanisms to facilitate necessary milk movements.

Proposal 19 to modernize the national Federal Order pricing surface and Class I differentials gives us an opportunity to adjust to current times. We also feel that the differentials assigned by the study fell short for the Western Region, especially in California. We support Mr. Vandenheuvel's view of the relationship between California's Central Valley and the major Upper Midwest milk sheds of Wisconsin, Minnesota, and South Dakota.

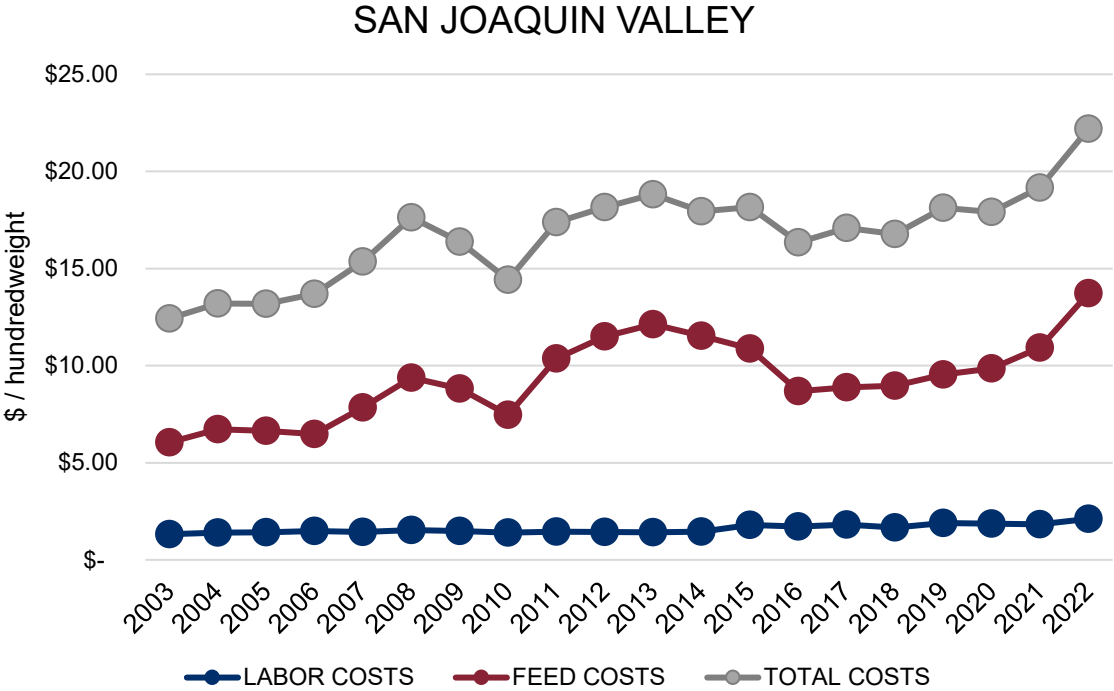
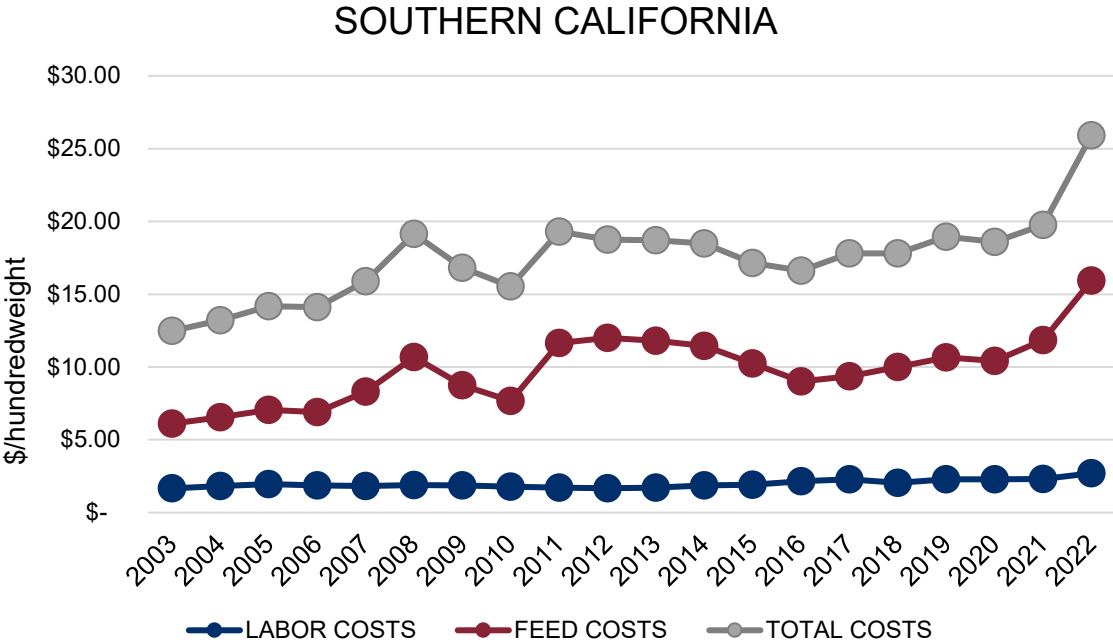
¹ Nevada Department of Agriculture website:
https://agri.nv.gov/Food/Food_Safety/Safety/Advanced_Final_Minimum_Fluid_Milk_Price_Announcements/

Regulation continues to challenge CA dairy producers, such as air quality, water rights, waste-water disposal, and zoning to name a few. Costs of production continues increase and from what I understand, it's magnified in the west. Labor, feed, insurance, and utilities costs, among others, are higher in California. DFA's Western Area average hauling costs have nearly doubled compared to 2001. I've included information from Frazer, specifically for California, shown in Appendix 1 below, that was previously provided into the record.

Even being a top milk-producing state, moving milk is not as simple as it would seem. California geographically is a very large, elongated state containing significant mountain ranges. Traffic at times is horrendous, particularly in the very large urban areas but increasingly in the growing urban areas of the Central Valley as well. This adds significant travel time, wear and tear on equipment, and places additional strain on the driver pool. There are few milk producers in close proximity to the large Southern and Northern California urban areas which necessitates increasingly longer hauls. One of our contract haulers, a large milk hauling business in California, who has asked to remain anonymous, has provided the following data, Chart 1, of changes in its cost structure. Traffic alone has increased hauler resistance and haul rates have increased steadily for milk deliveries to these plants. Also, the high cost of labor, insurance, and regulations along with restrictive weight limits all combine to make hauling milk demanding and expensive.

Appendix 1

Summary of Frazer, LP Dairy Farm Operating Trends Data, Annual²



² Frazer, LLP Dairy Farm Operating Trends, reports dated December 31, 2022, December 31, 2015 and December 31, 2009 contain the data in Appendix 1

KERN COUNTY

