

## **Testimony of Jared Fernandes**

Thank you for the opportunity to testify today. My name is Jared Fernandes, and I am a third-generation dairy farmer operating just south of Tulare, California. My family partnership consists of myself and two brothers. Together we own and operate two dairy farms, we milk about 5,000 cows and collectively farm approximately 1,800 acres devoted primarily to forage for feeding our cows.

My milk gets pooled on the California Federal Milk Marketing Order number 51.

I currently serve on the Land O'Lakes board of directors. I have held this position for 3 years. I also hold other leadership positions in the industry as a board member of the California Dairy Research Foundation and Dairy Cares, as well as my local DHIA board. As a member owner of Land O' Lakes I support all five proposals put forth by NMPF. Today, I am testifying in support of National Milk Producers Federation (NMPF) proposal listed in the Notice of Hearing as:

### **Proposal 7: Class III and Class IV Formula Factors**

I support the NMPF proposal to increase the current manufacturing cost (make) allowances in the butterfat, nonfat solids, protein, and other solids component formulas listed in the Notice of Hearing as Proposal Number 7.

I also support enacting the authority for the USDA to conduct mandatory, auditable plant processing cost studies, conduct such a study under that authority, and present the resulting data to the industry, which will enable interested parties to make requests for further make allowance adjustments based on proper and adequate data.

As stated by Christian Edmiston, Land O'Lakes Vice President of Procurement, these proposed changes do not fully correct for the increases in butter, NFDM, cheddar cheese

and dry whey manufacturing costs experienced by manufacturers since 2008, when the current make allowances took effect. Instead, these make allowance increases strike a fair balance between the producer impact of higher make allowances and the manufacturer impact of make allowances that more closely reflect the current cost of manufacturing commodity style butter, nonfat dry milk, cheddar cheese and dry whey.

NMPF has estimated that this make allowance proposal will reduce Class III prices by fifty-eight cents per hundredweight and reduce Class IV prices by fifty-two cents per hundredweight.

While these class price reductions, if implemented, will negatively impact my farm's margin, I as a member owner of Land O'Lakes understand the importance of federal milk marketing order make allowances being updated to reflect current manufacturing costs more closely for commodity style products. As you know, Land O'Lakes operates several dairy plants that manufacture butter, nonfat dry milk, cheddar cheese and sweet dry whey.

Outdated make allowances have negatively impacted the financial performance of our Land O'Lakes manufacturing plants. Accordingly, patronage paid to our dairy members has been reduced in recent years as a result of these outdated make allowances.

Additionally, compressed margins at manufacturing plants leads to delaying or underspending on routine plant maintenance that can negatively impact plant performance.

In short, outdated, undervalued, inadequate make allowances compress margins at cooperatively owned commodity manufacturing plants and place an unfair burden on cooperative producer members compared to producers who are not members of milk cooperatives that own and operate commodity manufacturing plants.

I fully realize that increasing make allowances will negatively impact producer milk prices and their margins will be further compressed. Make allowance increases larger than those proposed by NMPF will have a larger negative impact on milk producer's margins and increase the likelihood of jeopardizing the milk supply going forward. Inflationary cost has affected every producer, but in California the decreased water supply has dramatically increased forage cost. With Feed being our primary expense, I have noticed a large increase in dairy retirement and dispersals. Thankfully we have had a wet year this year, but we are feeding off our old higher priced inventory, and we know that our lack of new water infrastructure will continually inflate our forage cost.

Producer margins have become significantly compressed in the first half of 2023 and may be more compressed in second half of 2023, into 2024. Class III and Class IV prices have averaged \$5.47 and \$6.08 per hundredweight lower through June compared to the same six-month period in 2022 that have translated into major decreases in FMMO uniform prices [USDA Monthly Announcement of Class and Component Prices].

On my farm, our milk price has decreased significantly since June 2022. For example, the Federal Order 51 blend price in June 2022 was \$25.59 compared to the blend price in June 2023 of \$16.42 [Federal Milk Order No. 51 Statistical Uniform Price Announcements]. This represents a decrease of \$9.17 per hundredweight in twelve months and represents a decrease of over thirty-five percent over twelve months. Our current milk price is well below our break-even prices.

USDA projects the 2024 US All Milk price will drop to \$19.10 per hundredweight. That represents a decrease of \$6.24 from the 2022 All Milk price of \$25.34 representing a decrease of 25%. [USDA World Agricultural Supply and Demand Estimates, July 12, 2023] This drastic drop in milk price, without a similar decrease in other milk production costs,

has narrowed margins on many dairy farms to the point of being below their cost of production.

The larger increases in make allowances proposed by the International Dairy Foods Association (IDFA) and Wisconsin Cheese Makers Association (WCMA) would narrow producer margins to levels that would significantly impact my farm's profitability and collectively could put the availability of adequate supplies of milk at risk. Simply put, we cannot afford to absorb these additional class price decreases proposed by IDFA and WCMA.

For the reasons I have outlined in my testimony, I strongly urge the USDA to accept and implement the five proposals put forth by NMPF.

Thank you again for the opportunity to testify today.