WUD

WESTERN UNITED DAIRYMEN

Office of the Hearing Clerk
United States Department of Agriculture
1400 Independence Ave., SW
Stop 9203, Room 1031, South Building
Washington, DC 20250-9203

Re: Milk in California: [AO] Docket No. 15-0071

This reply brief is filed on behalf of Western United Dairymen (WUD), an association of dairy farmers representing the state's dairy families. WUD is a grass-roots organization headquartered in Modesto, California. As an association representing the interest of dairies throughout the state, WUD has a critical interest in this promulgation hearing. As testified at the hearing, WUD is in support of Proposal 1.

In light of all the information provided by opposing parties in post-hearing briefs, we would like to reemphasize some key components of Proposal 1 that are of critical interest to our members.

1) Equal prices with Federal Milk Marketing Orders

Throughout this process, California dairy producers have overwhelmingly supported getting California prices in line with Federal Order prices. That reality remains even more apparent today as producers in the state face a regulatory pricing system in California that creates an uneven playing field. This pricing disadvantage caused by current regulations has forced many dairies out of business.

To find a clear sign that the financial situation in California has deteriorated, one needs to look no further than USDA's *Milk Production* report. Indeed, so far in 2016 (first three months), milk production in California has averaged 2.7% below last year. What's even more concerning is that the same three months last year averaged 3% below the previous year. Put another way, we are in a period of year-over-year-over-year declines. It has now been 16 consecutive months of milk production declines. In the U.S., in contrast, milk production has been up an average 1% in 2016 compared to last year. During the same period last year, milk production was up an average of 1.8%.

According to California Department of Food and Agriculture (CDFA) data, in 2015, there were 1,438 dairies left in the state, down from 1,668 five years ago. Consolidation (with dairies getting larger), which has occurred throughout the country in the industry, is not the only factor to blame for this decline: in fact, the average size of a dairy farm in California dropped by 2 cows in 2015, to 1,215 cows. While milk per cow was down slightly year-over-year, a more concerning reality was apparent in the statistical data: a total of 41,670 cows left the California dairy herd in 2015.

California producers do not want "enhanced" prices like some of the opponents of Proposal 1 suggest: they only want the same prices as the Federal Milk Marketing Order system.
Many testified to that extent at the hearing. Even neighboring states agree with that reality, as exemplified in the Northwest Dairy Association post-hearing brief, dated March 30, 2016: "The second issue that the Northwest Dairy Association supports is that producers in California should not be disadvantaged with a lower Federal Order Class IIII or IV price than exists in similar Western orders such as the Pacific Northwest milk marketing order. Producer prices for Class III and IV should be aligned. That supports producers in California with similar prices, and supports the orderly marketing of milk and dairy products."

2) Recognize quota value

Real recognition of the value of quota is a key feature of Proposal 1. Congress even highlighted its importance by stating "the order covering California shall have the right to reblend and distribute order receipts to recognize quota value." The proponents of proposals 1 and 2 each spent a considerable amount of time on discussing quota, but we want to emphasize that Proposal 1 includes a meaningful recognition of quota value, while Proposal 2 does not. We believe that simply including an option for quota does not take into account the impact to the quota value. A real recognition of quota value must include features that ensure the quota program will not disappear.

We have serious concerns with Proposal 2's quota system as it has the potential to destroy quota value in a short period of time. USDA's preliminary impact analysis had shown that potential implication. During the hearing, Mr. Hatamiya's testimony added further clarifications to that devastating reality: "Again, repeating, as the AMS analysis undoubtedly predicts, the Dairy Institute's proposal would quickly diminish, then complete destroy the quota program and its long-held value. Within the short period of time, dairy farmers with quota ownership would experience massive write-offs not only on their balance sheets, but would sustain disastrous losses to their invaluable investment. The devaluation and ultimate elimination of their liquid asset would have negative impacts upon lending decisions, their access to capital, and their ability to purchase inputs for production, such as feed, labor, energy, and water. As I stated before, writing off over $1.16 billion in quota value would be disastrous not only for the individual dairy farmer, but also to the state and local economics. This is not a recognition of the value of quota, but simply a repudiation of any value." (Tr. Vol. XI, p.2284)

3) All milk should be pooled

Because of the large percentage of milk in California that would fall under either Class III or IV, WUD feels that the strict pooling requirements outlined in Proposal 1 are crucial. Allowing milk to frequently depool would undermine the pool's integrity. Such an incentive to play the system would be to the detriment of California dairy farm families.

The potential for such unstable marketing conditions was clearly illustrated by Mr. Hollon during the hearing proceedings: "Over the entire period, 34 of the 36 months (94 percent of the time) either Class III or Class IV would choose to be out of the monthly pool. The Class 4a/IV utilization for the 36 month period was 33 percent, and the 4b/III utilization was 46 percent. Thus, there would be significant volumes of milk (one or the other class) choosing to exit the pool 94 percent of the time (34 out of 36 months). The result of this constant in and out decision making would make producer pricing very unstable and the goal of uniform prices to producers unlikely." (Tr.Vol. XIII, p.2734)

Finally, in light of testimony submitted at the hearing regarding producer-handler quota, and recognizing that producer-handler quota is rooted in the same California statutes as regular quota, WUD would like to extend its support for proposal 3. As mentioned above, protecting quota value is something our membership feels strongly about. Incorporating producer-handlers' quota into a Federal Milk Marketing Order based on Proposal 1 would ensure quota value is protected – regardless of who is the owner.

Sincerely,

Annie AcMoody

Annie AcMoody
Director of Economic Analysis
Western United Dairymen