

FMMO Testimony

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Thank you for the opportunity to testify before you today. My name is Cornell Kasbergen. My wife and I own and operate a dairy farm in Tulare, milking 3,000 cows, in partnership with our son, Case and his wife Allison. We also operate a dairy farm in Wisconsin, Federal Order 30, with my brother George, our daughter Hilary and her husband Paul.

We have been in the dairy business all of our lives. My parents immigrated to the United States in the 1950's. They started milking cows by hand for other dairy farmers. In the late 50's they purchased cows, rented a facility and started milking cows in Southern California.

I am here today to testify in support of our California Dairy Industry. Cooperatives and private industry have invested billions of dollars in dairy farming facilities and plants to convert our milk into salable products. Today we risk that entire investment by everyone. To quote Benjamin Franklin, "*We must, indeed, all hang together or, most assuredly, we shall all hang separately*".

We do not need petty infighting amongst the players that surely will doom our corrals and plants to new orchards and housing developments. What we do need is a plan to insure milk production viability and the sustainability of our processing plants. Being on a level playing field with the rest of the country is the answer.

I support the proposed Federal Order plan that was submitted by CDI, DFA, and LOL. The current pricing structure in California is not sustainable. In fact it is leading to an unprecedented decline in dairy farms, milk production, and the demise of an industry that once was the envy of the world.

I understand that market dynamics in the different regions of the country results in varying over-order premiums paid to dairies and their cooperatives. But the California State Order has gone beyond that, steeply discounting the base minimum price for our milk relative to the published minimum prices used in Federal Milk Marketing Orders. The

California discount has cost California dairy farmers \$100's of millions of dollars. A majority of the discount has been on California's 4b price, compared to the Federal Order Class III price. From Aug 2012 – Dec 2014, the discount averaged \$1.84 per hundredweight. Assuming that 40% of milk production is 4B, I used a per hundredweight impact cost of \$.736 per hundredweight. The impact of that \$.736 per hundredweight on our dairy alone is as follows:

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| Aug 2012- Dec 2012 | \$350,256 |
| 2013 | \$975,437 |
| 2014 | <u>\$958,815</u> |
| Total | \$2,284,509 |

That amounts to a loss of over \$2,200,000 during this time period for our dairy alone. In an industry where we must compete for animals and feed with dairies around the country, this discount puts me at a huge disadvantage. In fact, it puts the entire California dairy industry at risk and is why we are here today.

The purpose of forming a Federal Order has three main tenants,

1. To provide for orderly marketing
2. To assure reasonable prices to both dairy farmers and consumers.
3. To assure an adequate supply of milk to consumers.

The milk pricing system in California has failed all 3 areas. In fact California's system is exactly why the Federal Orders were created. That was to protect the industry from unequal economic impact. As for the third point, and another failure of our system, the consumer is feeling the brunt of the decreased California production nationwide, with butter reaching historic high prices last week. All dairy trade publications lay one of the main reason for this historic price at the feet of California's decreased milk production.

The fact that the Cooperatives proposal yields a \$700 million dollar benefit for dairy farmers vs. the \$70 million dollar, Dairy Institutes proposal, speaks volumes. The Dairy Institutes proposal hopes to keep the status quo while destroying the value of quota, and the California dairy industry. Destroying the value of Quota is not in keeping with the intent of Congress. Allowing California Quota to be recognized if a Federal Order were to be implemented, is the intent of Congressional legislation and would maintain over 1 billion dollars of asset value for California dairy farmers..

During this hearing it has been stated that other orders are allowed to pay less than the minimum regulated price. Although the plants may buy some milk under Class. Or may not even be part of the pool. The majority of plants pay the minimum in order to keep their milk supply. My experience with our dairy farm in Wisconsin, Federal Order 30, has never been paid less than Class 3 for our milk. I would like to repeat that statement, **we have never been paid less than announced Class 3 milk price for our milk in Wisconsin.**

The California dairy industry can no longer afford to operate under the current system. Left unchecked the California dairy industry will continue to shrink at a rapid pace, unlike our counter parts in other areas of the country.

I just returned from our dairy farm in Wisconsin. The dairy industry there is alive and vibrant. Expansions are common, upgrading to the latest technologies. This is in stark contrast to California where the life and energy have been taken out. In fact, many are delving into other crops such as orchards or vines, and some are simply selling their cows and retiring.

The California dairy farmers cannot compete with a \$1.84 discount. Any perceived production efficiencies we've had in the past are largely eroded away. In fact, a recent online article written by *Hoard's Dairymen* noted the significance in seeing Wisconsin's milk production

per cow higher than California's for the first time in more than 50 years. California's higher prices for grains, hay, and utilities, combined with our significant regulatory costs, have eroded the cost advantages we once enjoyed.

The rate of decreasing milk production and loss of cow numbers is accelerating in California. Just look at the record, a dairy family a week is selling the farm and pursuing other opportunities. Just this past week I received flyers for 17,000 head of cattle in California to be sold at auction. Most if not all cattle, will go to out of state dairy farmers that enjoy the benefits of the Federal Order. The California dairy industry will not survive under our current pricing system.

It was reported by USDA, within the Preliminary Regulatory Impact Analysis (Exhibit 5) during this hearing, that California would expand if the Federal Order is adopted under the Cooperatives proposal. I can tell you that if the Cooperatives proposal is adopted, the result would be a decrease in the rate of decline in milk production, not an increase in overall production. The cooperative's base plans, which limit milk production to current plant capacity are still in place. This is the upper limit of California's milk production.

If the cooperatives proposal is adopted it would only slow the decline in milk production that we have seen this year. The days of the California dairy industry expanding 3-5 percent each year are over, for the foreseeable future.

A sustainable future for the dairies that remain in California relies on putting those dairies on an even playing field with our out-of-state colleagues, and USDA is in the unique position to facilitate that transition in this process of constructing a Federal Milk Marketing Order in California. I urge USDA to adopt the Coops proposal and bring stability to a dying industry.