

TESTIMONY

of

Greg Dryer

on behalf of

Saputo Cheese USA Inc.

Consolidated Stabilization and Marketing Plan Hearing

Post Hearing Brief

June 8, 2015

Mr. Hearing Officer and Members of the Hearing Panel:

Thank you for the opportunity to submit the following post-hearing brief.

The most poignant moment in the ten hours of testimony came when the representative from Land O'Lakes was queried, "why doesn't your Cooperative simply raise their price for milk as they are within their legal right to do." The honest response, without a moment's hesitation, was "supply and demand". It is in fact, supply and demand for California milk that should establish the price. Milk prices in other regions are irrelevant here. Milk is a local product and is economically viable within a relatively short distance. California producers do not compete with other producers, but they do compete as a member of a supply chain that also includes California Cheesemakers. You can't make California producers more "competitive" by increasing the regulated price if that makes the rest of the supply chain (cheesemakers) uncompetitive. That is a recipe for making things worse for dairy farmers in California, as the California based supply chain for cheese loses sales, markets, and overall profitability. Raising the fortunes of one member of the supply chain by pulling the other down can't be sustained. Increased demand for milk in CA will come only from investment in plant capacity and value added technology, products, and marketing. The necessary precursor for these is pricing that is economically rational, competitive on a finished product basis, and STABLE. CDFA must show a commitment to regulated pricing stability for producer welfare to improve. If cheese plants were asked directly to voluntarily agree to pay the Federal Order price in California, they would clearly decline. The Cooperatives who are charged with marketing the huge volume of California milk, are confronted then with the necessity of sitting down and negotiating a realistic price.

Attempting to circumvent this reality by appealing to CDFA to mandate a higher minimum regulated price amounts to gambling that the consequences of such a move would not impair their ability to market all the milk.

There was some testimony from individual producers who seemed very dissatisfied with their plight after just having enjoyed the year of the highest milk prices in history. It appears that the source of their discontent is not as much the price level itself but rather the fact that a higher price level exists elsewhere. They have repeatedly been exposed to media that suggests that their price is “unfairly” discounted from prices available in other regions. Consider an analogy. I could earn much higher salary if I chose to locate myself in New York City. Of course, I would then have to deal with New York conditions, intense traffic, high cost of living, high taxes etc. Instead I choose to live in the Chicago area. My salary is lower there but I enjoy the Midwestern culture and values. I grew up in the region and my family and friends live nearby. I don’t view the difference between a New York salary and my own as a “loss”. I don’t begrudge New Yorkers their higher incomes nor do I petition third parties to intervene on my behalf to obtain one for me. California farmers are free to relocate to Wisconsin in search of the opportunity to earn the higher price there. If enough of them did that, I could foresee prices possibly rising for those that remain in California and perhaps falling for those in Wisconsin as the supply expanded. It’s all about “supply and demand” as Land O’Lakes acknowledged.

There was much discussion at the hearing about the ongoing conversion of dairies to tree farms for almonds or walnuts. These farms were described as "grinders". It was suggested that by raising the minimum regulated price for milk, this disturbing trend could be reversed. My question is, if the demand for nuts exceeds the existing supply of farmland devoted to raising them, and raising nuts is more lucrative than dairying, won't the value of those crops just continue to increase until that demand is fully met? If the buyers of milk can't afford a price higher than the one returned from nuts, isn't the resulting conversion inevitable? What then would the justification be for raising the price of milk?

The California Food & Ag Code contains the following sentence: “If the director adopts methods or formulas in the plan for designation of prices, the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products.” The producer groups apparently interpret this to mean that the 4b milk price should be the same or nearly the same as those in other regions.

Processors interpret it to mean that milk prices need to be related somehow to the value of the manufactured products made from milk in a manner that makes economic sense. It makes no sense to establish a 4b milk price in California that cheese plants can't afford to pay.

I was asked at the hearing to provide backup to the freight rates I quoted in my testimony in my post hearing brief. I have attached a document containing screen shots of queries made from Chainalytics, a self-proclaimed Global Leader in Supply Chain Consulting, Analytics, and Market Intelligence. I have included with them a simple spreadsheet which summarizes the information they provided. Also attached is the May 1, 2105 USDA ERS Cost of Milk Production by State Spreadsheet and the February 2015 USDA NASS Milk Production Report which provided most of the statistics I quoted in my testimony. From the Milk Production Report, I prepared the spreadsheet, also attached, which enabled me to review and rank farm sizes, the growth in milk production, and losses in farm numbers.

Thank you for the opportunity to submit this post-hearing brief.

Sincerely,

R. Gregory Dryer
Senior Vice President
Industry & Government Relations

Saputo Cheese USA Inc.
One Overlook Point
Suite 300
Lincolnshire Corporate Center
Lincolnshire, IL 60069-4331