



**BEFORE THE UNITED STATES DEPARTMENT  
OF AGRICULTURE  
AGRICULTURAL MARKETING SERVICE**

**In the Matter of Milk in California;  
Notice of Hearing on a Proposal to  
Establish a Federal Milk Marketing  
Order**

**7 CFR Part 1051  
Docket No.: AO-15-0071;  
AMS-DA-14-0095**

**Clovis, California, September 22, 2015**

**Testimony of George Mertens**

**In Support of Proposal 1 of California Dairies, Inc.,  
Dairy Farmers of America, Inc., and Land O'Lakes, Inc.**

**Proposal to Establish a Federal Milk Marketing Order for the  
State of California**

**Cooperatives' Exhibit 2**

Good day Judge Clifton. My name is George Mertens. My address is 1100 Bonneau Road, Sonoma, California, 95476. I appreciate the opportunity to testify at this hearing and thank the United States (US) Secretary of Agriculture and the United States Department of Agriculture's (USDA) Dairy Programs division for calling this hearing at the request of the overwhelming majority of dairy farm families in California.

I am a dairy producer. I and my wife and sons operate Mertens Acres Dairy. Our farm has been operational for 50 years. Our herd has 900 milking cows and heifers, and milk from our farm serves markets in the North Bay area of California every day. We are member owners of Dairy Farmers of America, Inc. (DFA). DFA manages its day to day operations in seven multi state geographic units and our farm is a part of the Western Area composed of approximately 300 members with investments in 6 plants in California and Nevada.

I have been personally active in my local dairy cooperative as well as other agricultural groups my entire life. I have been involved as a participant and in leadership in farm organizations, trade organizations and governmental commissions. In addition I serve on several current and ongoing California regulatory advisory groups as a dairy farmer participant.

I am an active member in DFA and serve our members on the DFA Western Area Council as well as DFA's Board of Directors. I am in constant contact with

DFA members in California and the rest of the US. They are all very interested in this hearing. DFA's membership and leaders have participated in numerous informational sessions about the proposal and asked not only our staff but also USDA and California Department of Food and Agriculture staff many questions about specific points of the proposal and the process for establishing a Federal Milk Marketing Order. I expect you will hear from more DFA members over the next several weeks. The Western Area Council working in conjunction with the farmer leadership of California Dairies, Inc. and Land O'Lakes, Inc. has fully and formally endorsed pursuing and participating in the hearing to bring a Federal Milk Marketing Order to California.

Members are concerned about their farms and the investments in their cooperative businesses. We also realize we must have viable successful customers in order for our farm investments to succeed and be profitable. But without a viable milk supply those and our business investments will fail.

I speak regularly with DFA members and with other dairymen across the US. It is clear to California dairy farmers that their milk prices are not on par with the rest of the country. While I am not a student of the details of the milk pricing formulas, I do understand that milk used to make cheese and whey products in the Federal Orders is valued above milk used to make the same products in California. Over the past few years that difference has at times been more than three dollars

per hundredweight. DFA makes cheese and whey products in plants that we own directly or jointly with other partners around the country. Our plants sell those products in competition with California based plants all over the US and the world. It is difficult to understand why the California Class 4b milk price is so much lower than the Federal Order Class III price, but not too hard to feel some of the impacts.

California dairy farmers, like many in the US, have faced increases in our operating costs. Two recent situations that are somewhat unique and very impactful to the California dairy industry are the severe drought causing restrictions in water use (which is forcing dairymen to drill new and deeper and more expensive wells) and, the increasing conversion of land use away from dairy feed stuffs to tree nut and vine production. We don't expect the drought to last forever but at present it is a significant cost factor.

The land converted from feed production to tree nut and vine production is likely irreversible. This fact pushes up the cost of acquiring feeds as they must be sourced from longer distances and in competition with dairy and beef interests in other regions of the country. These two factors are difficult to isolate and categorize in the published studies on the cost of milk production but are in fact very real. It is difficult to compete for milk production inputs with other dairies in other regions of the country when our prices are not in a reasonable relationship

with theirs. We note that when California Secretary of Agriculture Ross announced the most recent changes in the Class 4b pricing formulas effective for one year and beginning on August 1, even she remarked, "...the changes were necessary to assist producers in dealing with increased costs of production and the effect of the ongoing drought." But these CDFA changes are temporary.

California has operated its state milk marketing system for many years. I was involved as a dairy farmer participant in the process when it was put in place in the 1960s. I've attended many hearings, committees and working groups with the California Department of Food and Agriculture since then. For many years the state Order has offered a reasonable balance between producer interests and processor interests and I understand maintaining that balance is not always easy.

Our three cooperatives and the three state producer trade associations have made multiple requests of the state Order through the hearing process to better align California milk prices with those of the rest of the country. However those requests have not resulted in milk prices that seem in a fair relationship to prices present in the Federal Orders. DFA members and the members of the other cooperatives asking for this hearing are appreciative of the recent temporary changes made in the California class 4b milk price formula. We nevertheless feel that now is the time for the California dairy industry to join the national system.

I will be glad to answer whatever questions I can but may have to direct some of them to our later staff witnesses. Thank you for holding the hearing and allowing me to participate.