

**United States Department of Agriculture
Before The Secretary of Agriculture**

In re: [Docket No. 23-J-0067; AMS-DA-23-0031]

Milk in the Northeast and Other Marketing Areas

Hearing beginning August 23, 2023

Testimony Presented By:

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Representing

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Hello, my name is Eric Palla, and I am a dairy farmer from Clovis, NM, where our family farms 15,000 acres and milks 10,000 cows. I am a second-generation dairy farmer and have been in the dairy business for over 25 years. I am a farmer-owner of Dairy Farmers of America (DFA), and currently have the opportunity to serve on the following boards: DFA's Southwest Area Council, DFA's Board of Directors, and the Greater Southwest Agency. Outside of dairy, I also reside on another cooperative board and a couple of educational Advisory Councils. I am here today representing Dairy Farmers of America (DFA) in support of the proposals submitted by National Milk Producers Federation (NMPF).

This has been an extremely challenging year for our dairy farm. Since December 2022, the All-Milk Price has declined by more than \$7.00 per hundredweight, which is far less than the over \$10 per hundredweight decrease in my net pay price over the last 12 months. The challenge in this, our costs of production have not gone down. Our dairy is experiencing the worst margins in our history. We have faced significant inflation in our input costs since 2020. For instance, our feed costs are \$5 per hundredweight higher, maintenance and repairs are up 13 percent, our fuel and interest costs have doubled.

Nevertheless, we are very proud of the efficiencies we have achieved over the same time period in order to limit cost increases in other items such as labor, vet, utilities, and misc. costs. As dairy farmers always do, we come up with better, more efficient ways to operate to help overcome some of our cost increases. However, even with our improvements in efficiencies and cost-cutting, it doesn't go far enough given the current return in the marketplace.

All things equal, even a small increase in make allowances will be detrimental to milk prices. I understand that make allowances are an aspect in determining Federal Order class prices and from time to time there is a regulatory need to adjust them. However, I ask that in doing so the Secretary of Agriculture take into account the impact on dairy farm milk prices, and more importantly, the impact on dairy-farm profitability.

Our farms have been asked to become more efficient over time and absorb the recent input cost increases, while at the same time we are experiencing much lower milk prices. We as farmers do not have a mechanism to pass along these cost increases to ensure our profitability. As a farmer-owner of a milk-marketing cooperative the financial performance of the cooperative's manufacturing assets also impact my milk check. However, the change in make allowance will have an even greater impact on our milk price as it will come out of 100 percent our milk marketed.

Within these challenging market conditions, a \$0.50 per hundredweight decrease in Class III would move me into a negative operating income. The significant changes proposed by the International Dairy Foods Association and the Wisconsin Cheese Manufacturers Association would create an unsustainable decrease in milk pricing and should be rejected. In fact, if the proposed change were in place over the last 10 years, we would have experienced negative operating income. Over the years, dairy producers have had to deal with all of the same pressures of market competition and incremental cost increases, making profitability very difficult.

Dairy farmers are price takers, while processors are price negotiators. Cheese manufacturers can pass on their higher costs when they sell their products. I do not have that same ability. Milk buyers at manufacturing plants have additional means to cover their operating costs, including lowering over-order premiums. I strongly object to allowing manufacturers to take additional money out of my milk check, when they continue to have other means to cover their production costs. I believe they have the ability, and a duty to the dairy producers, to exhaust all other avenues to become more efficient in their operations as opposed to paying me less for my milk.

I understand that for a vibrant dairy industry, both producers and processors need to be equipped with the right tools to reach financial success. I support the NMPF package, in totality, because it works to modernize the FMMO system beyond a make allowance increase but aims to balance added benefits for processors and producers. However, as a farmer, this package is a compromise and I would not be supportive of a sole make allowance change, especially an increase to the levels others are proposing.

Additionally, I understand that the proposal to change the skim milk component factors is based on dairy farm component test increases. In 2022, my milk tests averaged 3.76 percent fat, 3.23 percent protein, and 9.09 percent solids nonfat. This has risen from 3.54 percent fat, 3.11 percent protein, and 8.9 percent solids nonfat since 2017.

In my opinion, our milk components have risen over the last several years for a couple of reasons. One, is the increasing speed of genetic improvement due to the adoption of new technologies by the dairy industry and its supporting businesses. I also believe that our ability to feed the cows with more precision along with advancements in nutritional science have enabled us to target components more effectively without sacrificing production per cow. A third reason for component increases is the use of crossbreeding in herds across the United States. It is my belief that improved management, along with scientific advancement, will continue to increase our ability to produce higher component milk in the future.

The timing of the changes to Federal Order milk price formulas could impact the outcome of the milk price risk management transactions I have used to hedge my dairy's future profitability. Risk management is an extremely important part of our business. We use several different tactics to try to minimize large price fluctuations and its effect on our bottom line. We use a combination of fixed pricing in both classes of milk along with Dairy Revenue Protection (DRP) and, at times, Target Blend pricing that is offered through DFA Risk Management. We tend to protect profitable pricing as far ahead as I can have feed contracted. This can range from 3 months to up to 18 months ahead depending on the futures price, and my desire for risk. We are currently looking at forward pricing and or adding DRP well into 2024.

It is important to the success of my business that the Federal Orders do not change the milk price formulas for transactions I may have entered into prior to my knowledge of the change and the timing of its implementation. Ideally, I would like an 18-month delay. This is necessary to protect my transactions from additional risk that was not in the market place at the time I made the transaction. That said, I recognize the broader needs of the dairy industry and support an earlier implementation of the other NMPF proposals, apart from the changes in skim milk component factor which should be delayed 12 months or more.

I close by repeating my support for the NMPF proposed package in totality but wish to again highlight the dire situation dairy farmers are facing within the current marketplace. We operate on very slim margins even in a good year. As a second-generation dairy farmer, I have had the opportunity to step into the shoes of those that came before me and work tirelessly to make improvements for the generation after me. Without dairy farmers, there cannot be a dairy industry.

Dairymen will always try to find a way to do what we love to do, which is milk cows, raise our animals, and provide for our families. However, we can't continue to take all of the risk for everyone else to make a dollar in exchange for pennies. We will continue to innovate, manage, and strive for success. We live in optimism, but we can only survive so much. Thank you for allowing me to testify today on these issues that are very important to my family and the future success of our dairy business.