

California Dairy: Resilient in the face of challenges

Dairy and Livestock Greenhouse Gas Reduction

Working Group

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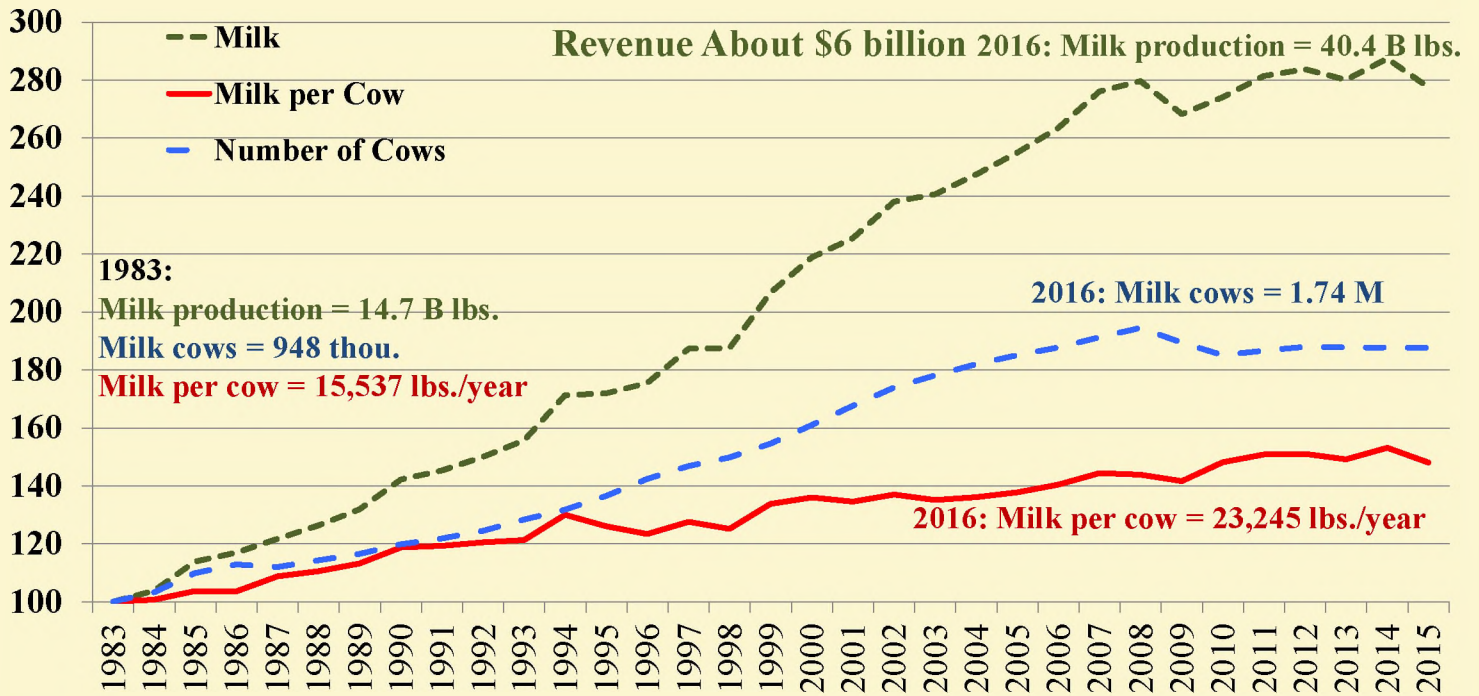
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Some key facts about the dairy situation and outlook relevant to greenhouse policy in California

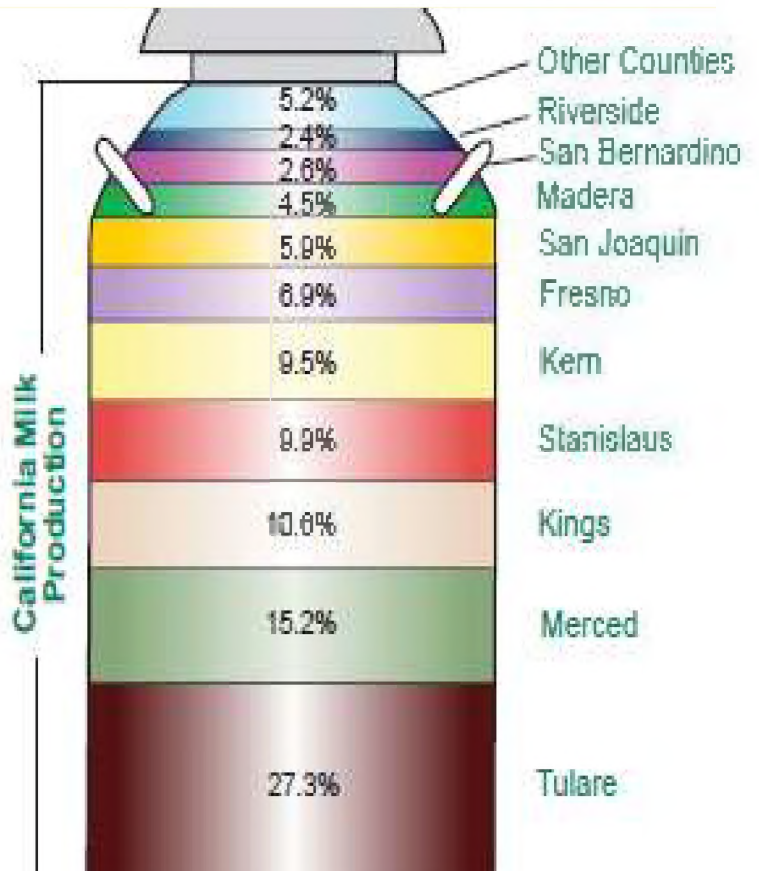
- 1. Cow numbers continue to fall very gradually as they have for a decade, while milk production per cow rises gradually.**
- 2. Hay and silage production have declined as water and land shift to tree nuts. Hay is shipped in, but silage consumption falls**
- 3. Export markets remain vital; competitive prices for non-fat products allow California to supply growing demand in Asia**
- 4. Competition with other U.S. states is more challenging as they have improved productivity and lowered costs, but California is still about as big as the next two (Wisconsin and New York) combined!**
- 5. California faces higher labor and regulatory costs (for farms **and** processors) and relatively low milk prices (as a state that ships out generic milk products)**

California Cows, Milk and Milk per Cow, 1983-2016 (Indices)

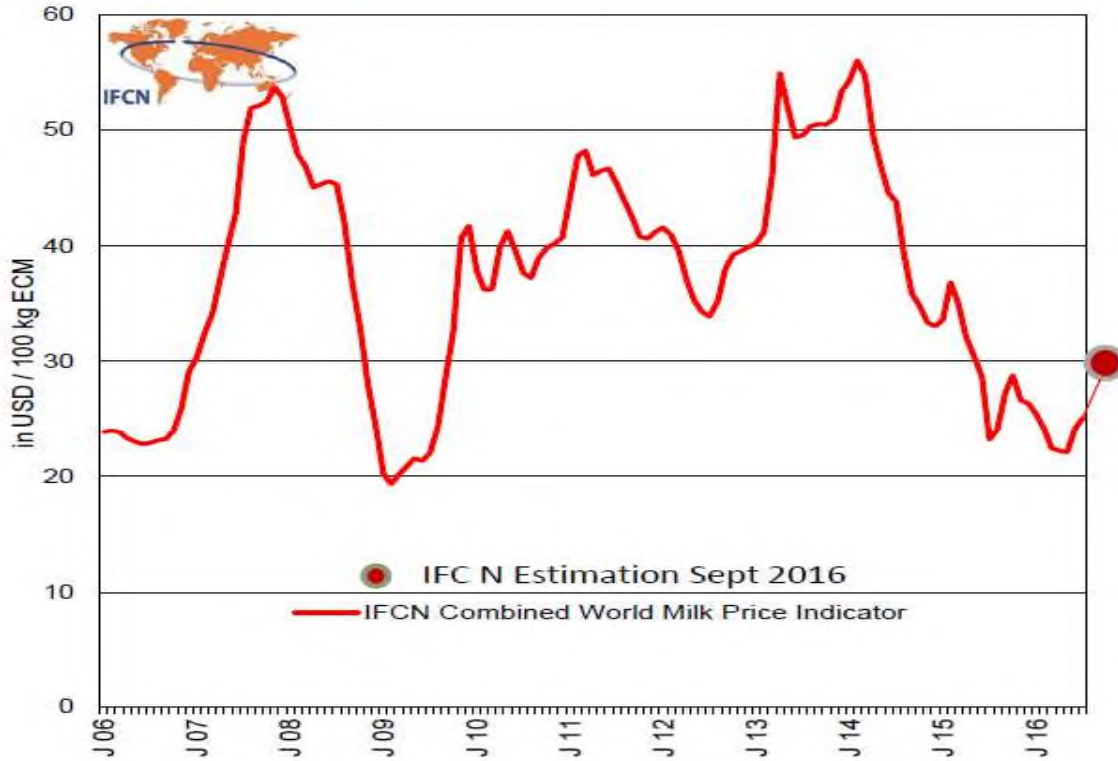


Total Milk Production: Top 10 Counties

County (by rank)	Milk Production Jan-Dec 2016 (Pounds)	Change from 2015 (Percent)
#1 Tulare	11,041,187,573	-1.64%
#2 Merced	6,164,643,788	-1.56%
#3 Kings	4,271,591,648	-0.04%
#4 Stanislaus	3,985,310,285	-3.56%
#5 Kern	3,827,297,135	0.86%
#6 Fresno	2,778,237,138	0.11%
#7 San Joaquin	2,395,838,868	-0.87%
#8 Madera	1,821,778,167	-0.94%
#9 San Bernardino	1,046,958,508	-1.47%
#10 Riverside	869,861,847	5.48%



IFCN World Milk Price Indicator



California milk prices per cwt:

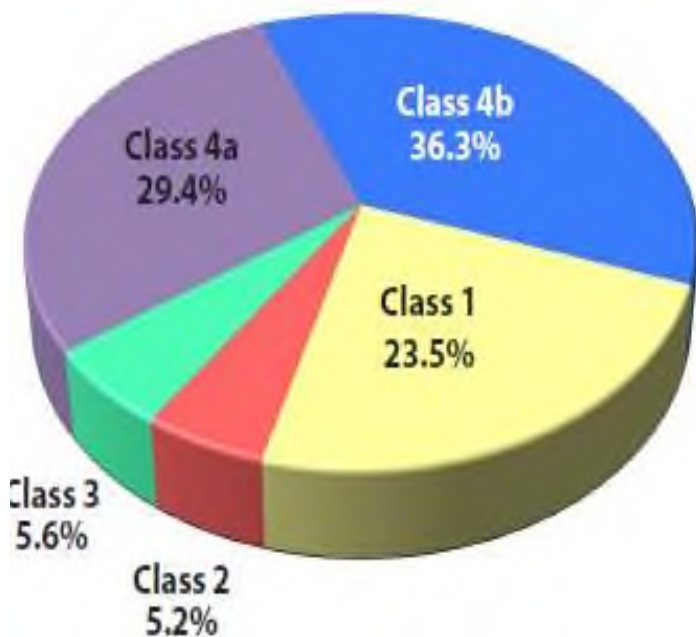
2012: \$16.59
 2013: \$18.49
 2014: \$22.08
 2015: \$15.40
 2016: \$15.03

National prices are higher, but not in all major milk states.

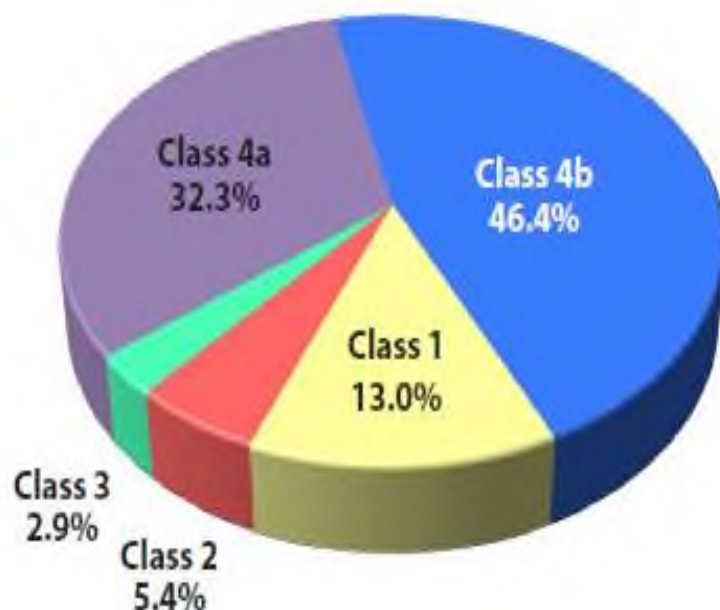
California Dairy Farm Cost of Production (CDFA)

	<i>Feed Costs</i>	<i>Hired Labor</i>	<i>Replace Costs</i>	<i>Operating Costs</i>	<i>Marketing Costs</i>	<i>Total Cost</i>
Dollars per CWT						
2006	6.84	1.53	1.98	2.66	0.50	12.64
2012	11.48	1.52	1.24	2.80	0.54	17.57
2013	11.46	1.52	1.08	2.77	0.55	17.37
2014	11.05	1.56	1.37	2.88	0.56	17.42
2015	10.46	1.70	2.12	2.93	0.56	17.78
2016	9.22	1.74	2.10	2.92	0.55	16.53

**Utilization of California Pooled Milk
by Class, 1996**



**Utilization of California Pooled Milk
by Class, 2016**



International Dairy Markets: Long Term Trends and Short Term Variability

The long term growth in demand for California dairy is likely not in California or U.S. markets to the east, but in Asian markets to the west. This varies by product and competitors are different, but dairy markets are increasingly global. So, we need globally competitive California dairy producers and processors

Major Dairy Exporters and Importers



Regulations and other drivers for California milk prospects

- 1. Federal “Farm Bill” subsidies and milk marketing and pricing rules are now less vital than other regulatory and market issues.**
- 2. Government rules and buyer responses to groups that push for farm production and processing standards that raise costs with little perceived benefit to consumers, who react to higher prices**
- 3. California greenhouse gas regulations for processors and farms raise local costs, but not competitor costs which discourages local production unless offset by subsidy (or buyers able to pay for compliant products)**
- 4. Local environmental concerns and associated costs become more intense**
- 5. The only solutions are innovation to meet regulatory demands, which is why anti-science anti-research trends are worrisome.**

Summary of Issues

- Milk demand will grow at different times in different places, driven by population and income growth**
- Milk demand growth is of no use if markets are closed to exports from the United States because of trade impediments**
- Demand growth is of no help if California is not competitive with domestic producers and other exporters**
- Competitiveness begins with feed supply and extends through the dairy farm to processors**
- Each stage from feed through processing and transport raises issues, many of them related to policy and regulations**
- So far, we see no sustainable, cost-effective solutions that do not depend on substantial subsidies that may be unsustainable**