

**STATEMENT OF  
ERIC ERBA  
BEFORE THE  
COMMITTEE ON AGRICULTURE  
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY  
U.S. HOUSE OF REPRESENTATIVES**

**“Examination of the issue of feed availability and its effect on the livestock and poultry industries”**

**September 14, 2011**

**Chairman Rooney, Ranking Member Cardoza and Members of the Subcommittee:**

Good afternoon. My name is Dr. Eric Erba and I hold the position of Senior Vice President of Administrative Affairs for California Dairies, Inc. (“California Dairies”), whom I am representing here today. California Dairies is a full-service milk processing cooperative owned by approximately 450 producer-members located throughout the State of California. Our producer-members collectively produce almost 42% of the milk supply in California and 9% of the total U.S. milk supply. Our producer-members have also invested over \$500 million in large processing plants at six locations in California.

We appreciate your willingness to convene a hearing to gather information on feed availability and hope to leave you with a sense of the feed costs, which is a topic that resonates strongly with our producer-members.

*Feed and the California Dairy Industry*

The basic theme for dairy producers since 2009 has been one of survivability, and a huge piece of the equation is cost of production. Feed costs represent almost 65% of the cost of producing milk, and the skyrocketing costs of feed since 2007 have caused dairy producers to question the very manner in which they operated their dairies. Let me explain what I mean. The hallmark of dairying in California is a Western style of dairying, in which dairy producers buy a high percentage of feed bulk quantities instead of growing the feed on or near the dairy. This model for dairying relies heavily on almost all of the grains and some of the forages being shipped into California from other states, where they can be grown cheaper than they can in California. Most California dairy producers do grow a high percentage of corn but it is for silage, not grain. This model has been in place for decades and worked very well until relatively recently. High priced land and lack of affordable water in California’s agricultural areas represent insurmountable obstacles that prevent California dairy producers from becoming more diversified as crop farmers in addition to being dairy producers.

*Feed Availability or Feed Price?*

From our point of view, the problem is not feed availability; it is the price of feed. Application of elementary economic principles suggests that the two are intertwined – as the supply of feed

decreases, the price increases. Applied to what we see in the California dairy landscape, that basic principle can be refined to an axiom that suggests that feed has been and continues to be available...but not necessarily at prices that always makes good financial sense for dairy producers.

We note that there has been more competition recently for U.S. grown feed from other countries, particularly for the high quality hay that is usually sold to dairy producers. For example, some of the countries have concluded that it makes more sense to buy hay from the U.S. than to use their own resources, particularly water, to grow their own hay, even if those countries must pay a little more for U.S. grown hay.

Let me take the example of alfalfa hay a step further. The specific matter of feed availability is most easily and directly applied to this feed, where there truly has become an issue with the availability of hay, no matter what the price. Part of this is from increased demand for hay from both domestic and international buyers, but a large part of what is affecting the hay availability issue has to do with supply. In California, we have seen a tremendous decrease in the alfalfa acreage in just the last two years. Alfalfa hay has been a staple of many dairy rations, representing ten to fifteen percent of the mixed rations. We have heard alarming reports of hay fields being torn out and replaced with higher valued crops, such as cotton, tomatoes, and fruit and almond orchards. California pioneered the use of feed byproducts as ancillary ingredients for dairy rations, but byproducts have a significant downside – they are typically available only intermittently. They may be useful when they are available, but ration consistency is a key for ideal milk production. Simply put, cows like consistency in rations, not variety. So while byproducts may be available from these higher valued crops, they are in no way substitutes for alfalfa hay.

### *Ethanol and Feed Prices*

There is no one cause for high feed prices, which affects how much feed is available at prices that will sustain dairy farms. High feed prices may be the result of unfavorable weather patterns, high energy prices, speculation in feed markets, a weak dollar and high demand for feed from other countries. One very conspicuous disruption on the demand side of feed is the federal ethanol program. USDA's Crop Production and Supply/Demand Report forecasts that more corn will be "consumed" by ethanol plants than by livestock, a spectacular change in historical trends. Is there an impact on corn price because of the federal ethanol policies? We have heard alternative energy proponents suggest that the impact of the ethanol industry on corn prices is minimal. It is economically illogical to suggest that almost half of the supply of any commodity can be removed from the market from a relatively new, large and defined demand source without any impact on price. It just doesn't make sense. Other studies suggest that the impact of the federal ethanol program on corn prices may be increases in the range of 20% to 40%. These results seem to be more consistent with current corn prices and our producer-member experiences. Alternative energy proponents also point out that ethanol production results in a new feed source, dried distillers grain (DDG). That is a hollow argument. DDG is a lower quality feed that lacks the starch that corn contains and making corn such an important ingredient in dairy rations. Also, the conversion rate is horrible – dairy producers give up three pounds of corn and get back one pound of DDG. Finally, current DDG prices are about the same as for corn, even though DDG must be supplemented by other starch and energy sources to be used effectively as a livestock feed.

The California Department of Food and Agriculture (Department) collects and publishes cost of feed data obtained from California dairy producers. The data reveals that California dairy producers' cost

of production is dominated by feed costs, responsible for 65% of the cost of producing milk. Prior to 2008, the cost of feed made up less than 50% of total milk production costs. The recent price increases for rolled corn and alfalfa hay are even more dramatic. California dairy producers paid an average of \$300 per ton and \$275 per ton for rolled corn and alfalfa hay, respectively, in 2011. From 2000 to 2008, the same commodities averaged \$125 per ton and \$160 per ton, respectively, which computes to an increase of 145% in the corn price and an increase of 60% in the price for alfalfa hay.

### *Alternative Feed Rations*

With the prevailing high prices in the corn and hay markets, there may be some question as to why producers do not attempt to seek alternative feed rations that are far less dependent on corn and hay as the foundational ingredients. The reality is that nutritionists have tried repeatedly to find alternative rations with very limited success. Bear in mind that prices for almost all feeds have increased simultaneously, the so-called “sympathetic” price increases that are evident across all feedstuffs when the price of one major commodity increases suddenly. This effect limits the ability of dairy producers to substitute away from higher priced feeds. Notably, commodities like whole cottonseed, soybeans and wheat have been nearly priced out of consideration by many dairy producers who must purchase feeds for their dairy cow rations. Even substituting more lower-priced roughage for concentrates may have the unwanted consequence of lowering milk output and altering milk component levels. In other words, there may be no change in dairy farm profitability if the feed substitutes that appear to be less expensive result in decreased milk production or decreased milk components or both.

### *Concluding Remarks*

Dairy producers are critical of the federal policy that favors fuel over food because of the evidence that policies put animal agriculture at tremendous risk for higher production costs with no guarantee of higher prices for product produced. In addition, feed markets, particularly the corn market, have become very sensitized to forecasts and reports on plantings, stocks, and yields. Markets that are so tightly bound to informational releases have a tendency to overreact, making volatile markets even more difficult to navigate through. In combination with already high feed prices, a new challenge has been presented for dairy producers – developing some proficiency with hedging and forward contracting in feed markets that are characterized by extreme price volatility. Needless to say, inexperience and lack of knowledge when making decisions in these kinds of markets are principal ingredients for disastrous results. But there is no avoiding the issue, and dairy producers will need to develop the skills necessary to navigate through unpredictable feed markets. No producer can count on corn or any other feed price returning to more stable and predictable levels anytime soon.

Thank you for inviting me to present this testimony to you today, and I look forward to your questions.

## ***Eric Erba***

Eric is the Sr. Vice President of Administrative Affairs for California Dairies, Inc. and has responsibilities in CDI's analytical, economic, policy and regulatory efforts. Before joining the CDI staff in September 2006, Eric was the Assistant Director for the Division of Animal Health and Food Safety Services at the California Department of Food and Agriculture. From 1997 to 2004, Eric was a Senior Agricultural Economist for Dairy Marketing Branch and performed quantitative analyses to assist the Secretary of Food and Agriculture in administering the California Milk Marketing Program equitably.

Eric received a Bachelor of Science degree in Animal Science from the University of California at Davis in 1988. He continued his studies at UC Davis, completing a Master's of Science degree in Animal Science with an Animal Breeding emphasis in 1990. To complement his Animal Science training, he received a Ph.D. from Cornell University in Agricultural Economics with a specialty in Dairy Market Policy in 1997.



