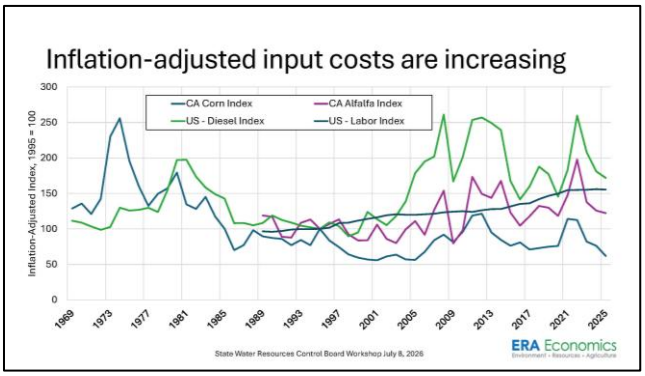


Rising Costs Put Strain on Family Farms, Food Production, and Rural Communities

Affordability and the cost of living are the leading concerns for Californians today. This is the same for the state's dairy farm families. Farmers and food producers in the Golden State increasingly face high input and environmental compliance costs, and the effects ripple through rural communities.



Inflation-adjusted input costs for California dairy farms have dramatically increased over the past two decades. At the same time, inflation-adjusted milk prices paid to farmers have declined. Economic impacts are greater for smaller dairy farms.

When a panel of dairy farmers took the stage at the most recent California Dairy Sustainability Summit this past March, the conversation focused on cost-effective strategies for helping keep their operations going well into the future.

"We are price takers, not price makers, so we have to control inputs" said Rochelle De Groot, a third-generation dairy farmer. "The most important consideration for us is cost effectiveness and efficiency," she said about new technologies.

Despite economic headwinds, an incredible amount of innovation continues to occur on California's dairy farms, from new manure management technologies to AI-powered wearable health monitoring devices for cows, to electrified farm equipment. Dairy farmers continue to invest in advancing resource management, improving cow nutrition, health, and comfort, and making world-leading milk production even more efficient. However, between rising diesel and energy costs, increasingly limited water availability, and changing requirements with significant cost implications, much still remains outside of dairy farmers' control. Third-generation dairy farmer Jack de Jong said his greatest fear is the unknown.

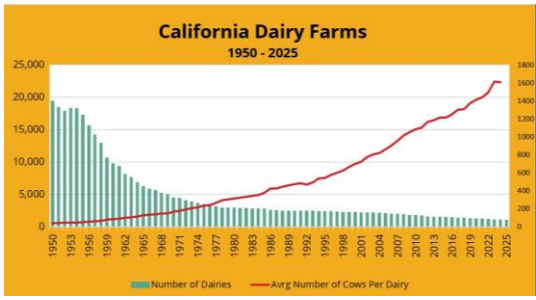


The skyline in Tulare features a water tower painted like a glass of milk, as a tribute to local dairies.

"We try to be proactive as dairy farmers and look ahead especially to the next generation," said de Jong. "But when you don't know exactly what's ahead and what the challenges are, and how you can mitigate that, it can make you nervous. Historically, every generation has built on the generation before it, and I want that for my family as well. When we don't know what California might do next with regulations, it makes us nervous about how to be successful and pass it on."

Economists at ERA Economics have been working to evaluate dairy farm trends, and likely economic responses to changing requirements and cost pressures. One critical observation is that price of California milk has decreased as input costs have increased, resulting in reduced net returns for dairy farms. The resulting reduced operating margins make farms increasingly sensitive to new costs, and cost pressures are disproportionately greater on small dairy farms. Larger dairies can spread capital, monitoring, environmental reporting, and other fixed costs over more milk production. Smaller dairies are more likely to merge, sell, or exit as costs increase.

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Loss of dairy farms is harmful to local businesses, regional tax revenues, and community social fabric. Dairy farms and the surrounding dairy community contribute significantly to regional economies, job stability, and nutrition security. Farm closures eliminate agricultural jobs and reduce demand for local transportation and food processing services, leading to even more lost jobs.

Rising costs have impacts beyond California's dairy farms. Increased diesel costs are driving significantly higher expenses for farmers and local food banks. As food safety, labor, and environmental standards become more stringent, compliance costs continue to rise for local farms and food producers, and food imports made under less rigorous standards gain a competitive market advantage. Between rural economic challenges and increased water scarcity, many California farms and a growing number of food processing facilities have closed their businesses or moved them out of state.

Consider the following:

- One in 5 Californians have uncertain or inconsistent access to food.
- California has the highest food production costs in the country. California farmers and food processors endure the highest U.S. labor, fuel, and electricity expenses.
- California's food producers will soon be hit hard by the new packaging mandate and fees. The effects could be devastating to food businesses and lead to even higher grocery prices. It is estimated that SB 54 could increase grocery costs for families by as much as $1,300 a year.
- The Sustainable Groundwater Management Act (SGMA) is expected to force the fallowing of up to 900,000 acres of irrigated farmland by 2040. This land reduction—up to 20% of the Central Valley's productive farmland—could cost the agriculture sector up to $2.5–$7 billion in annual lost revenue and result in the loss of up to 50,000 direct and 85,000 indirect jobs.
- In an initial assessment, ERA Economics estimated that the total number of California dairy cows will decrease 10 percent by 2040 due to SGMA implementation.

When food production moves out of California, it ends up being produced in other states or countries without the same environmental protections, leading to impacts on water sources, emission leakage and failing to support the important progress being made to ensure the well-being of our California communities through a world-class agriculture economy.

"We have to stop taking food production for granted," said Michael Boccadoro, Executive Director of Dairy Cares. "California, the nation's leading agricultural producer, should theoretically have some of the most accessible and affordable food in the country. Instead, it is the most expensive state for groceries in the contiguous United States, with prices soaring far beyond national averages. This trend is not only devastating to consumers but also disheartening to the farmers doing their part to ensure everyone has access to nutritious and affordable food."

The average household in California spends $1,200 per month on groceries, nearly $300 per week, making it one of the costliest places for food in the country, according to a study that analyzed information from the U.S. Census Bureau. This is $30 more per week than the national average, placing further financial strain on families already dealing with high housing, transportation, and utility costs.

California's dairy farmers are no strangers to creative solutions and technological advancements aimed at boosting efficiency and keeping their farms in business. However, their resilience has limits, and the loss of family farms should be a major concern for all Californians.

Rising farm input costs warrant close attention, given their far-reaching impacts on farm viability, rural economies, and consumers.

Dairy Cares is a statewide coalition supporting economic and environmental sustainability and responsible animal care. Our members include Bar 20 Dairy Farms, Clover Sonoma, California Dairies Inc., California Dairy Campaign, California Dairy Research Foundation, California Farm Bureau Federation, Dairy Farmers of America, Dairy Institute of California, F & R Ag Services, Hilmar Cheese Company, Joseph Gallo Farms, Land O'Lakes, Inc, Milk Producers Council, Valley Milk, LLC, Yosemite Farm Credit, Zenith Insurance Company, and others. For information, visit DairyCares.com. To subscribe to the newsletter, contact news@dairycares.com.

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