United States Department of Agriculture
Before The Secretary of Agriculture

In re: [Docket No. 23-J-0067; AMS-DA-23-003l]
Milk in the Northeast and Other Marketing Areas

Hearing beginning August 23, 2023

Testimony Presented By:

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My name is Sean Cornelius, I am a dairy farmer from Hamilton, Mo., and farm in partnership with one of my brothers and my parents. Together, we typically milk 100 cows and farm around 1,200 acres. We currently have 4 generations living on the farm and are proud to be farmer-owners of Dairy Farmers of America (DFA). I currently have the opportunity to serve on the Central Area Council of DFA, preside as Secretary of Missouri Dairy and am President of Caldwell County Farm Bureau. I also am a partner in Best Axis dairy consulting and provide dairy nutrition services in the United States and Australia.

I am here today on behalf of DFA to support National Milk Producers Federation (NMPF) proposals to amend Federal Milk Marketing Orders (FMMO), including reverting the Class I Mover back to the higher of Class III and Class IV, a moderate update to make allowances, improving the Class I differentials, and updating component factors.

<u>Returning to higher of:</u>

During the 2018 Farm Bill, the dairy industry came together, in an attempt to support Class I processors, to back a change to the Class I skim formula from the “higher of” Class III and Class IV to an “average of” Class III and Class IV plus $0.74 per hundredweight. At the time, the market projected the impact to milk prices would either be net neutral or net positive to milk prices. However, over four years later, we know that is unfortunately not the case.

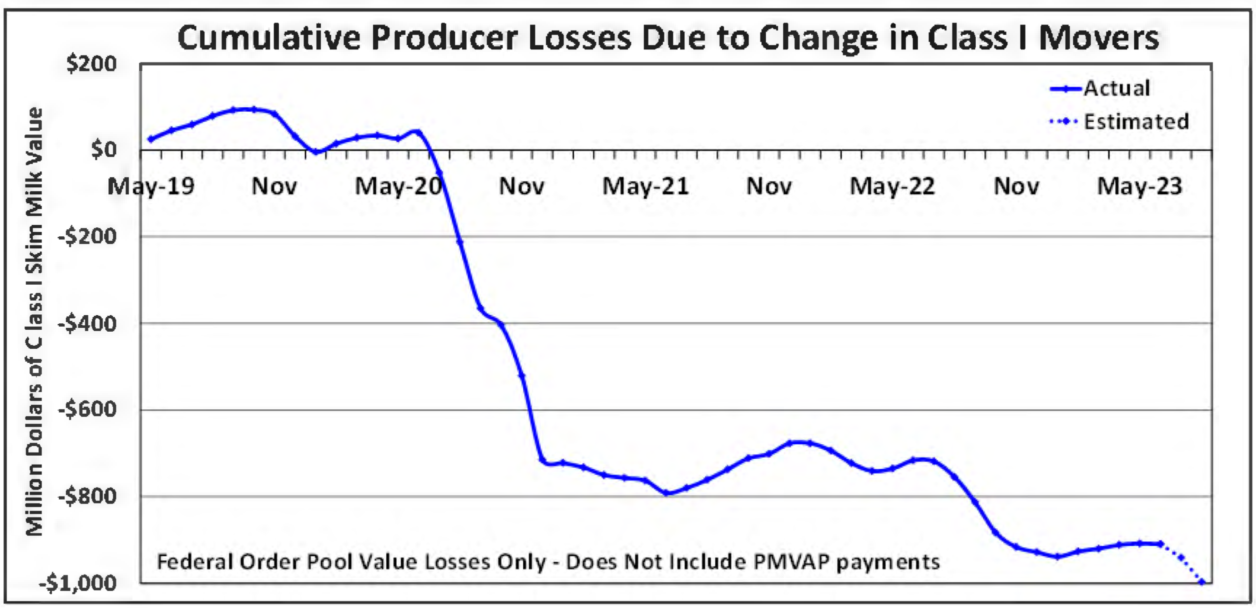
According to NMPF, from July – December 2020, dairy farmers FMMO revenue was reduced by $753.8 million due to the average of plus instead of the higher of. We are thankful to the Secretary for the two Pandemic Market Volatility Assistance Program (PMVAP) payments (round 1 about $250 million and round 2 about $100 million) to help compensate for the loss. However, this support came much delayed and woefully undervalued total revenue losses from the marketplace.

The disparity between higher of and average of is often blamed on the COVID-19 pandemic. However, since January 2021 and through July 2023, the average of plus was less than its higher of counterpart in 18 of 31 months. This resulted in a revenue loss of about $226.5 million. About $222 million of the loss occurred since August 2022 – or over the last 12 months. Charts 1 and 2 below help show the estimated market loss and disparity between the two Class I Mover scenarios over the past several years.

The simple average of the differences over the last 12 months is $.56 per hundredweight. At a 30 percent utilization, it has reduced blend price by about almost $.17 per hundredweight. Dairy farmers have always operated on extremely low margins but are currently facing especially struggling times. This is real money in our pockets. For my farm, our market averages between 80 percent and 85 percent Class I utilization. This means our pay price through this time frame was very negatively impacted even more by this change.

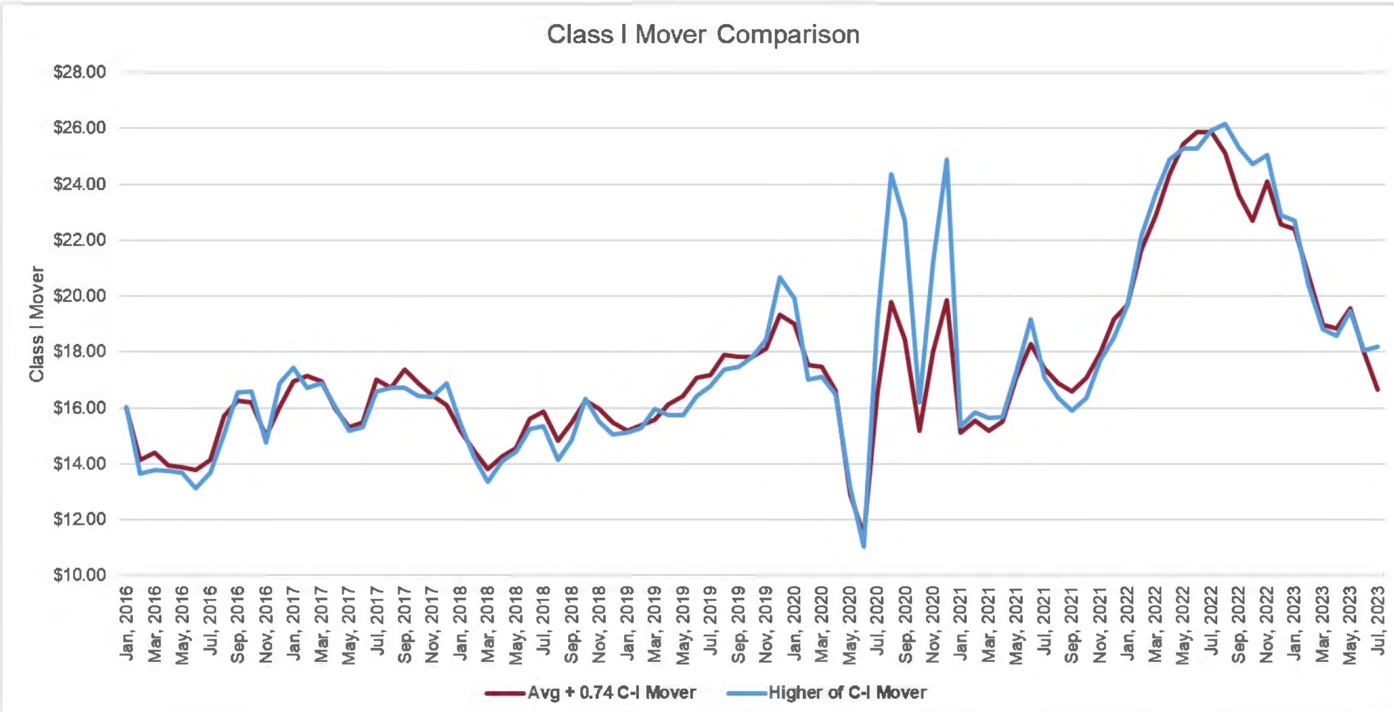
Dairy producers originally supported the change to average of in light of supporting Class I processors ability to hedge. However, it is my understanding a significant majority of Class I milk is not hedged. I don't know the amount that is hedged, but it is a low volume.

Chart 1



Source: USDA, AMS; NMPF Estimates

Chart 2



Source: USDA, AMS

The Agriculture Marketing Agreement Act of 1937 set up the Class system to ensure an adequate supply of fresh milk for our country and clearly intends Class I milk to be the highest price of the four classes. The pandemic created a situation where Class III milk greatly outpaced Class IV and skewed the outcome of the current formula to bring Class I pay prices that were outstripped by Class III milk. As we saw from the charts above, Class III and Class IV continually failed to meet expectations of moving together, even as COVID-19 is behind us.

As it is the intention of the enabling legislation that Class I milk be the highest return to the farm and it has been made clear that there is a major flaw in the current formula, it is time to return to the higher of Class III and IV for determining the Class I Mover.

<u>Moderate increase in make allowances and updated Class I differentials:</u>

For the Class I differential, I believe that this requested change, and the make allowance change are closely related. We all know that costs have greatly increased across all facets of goods and services. Labor cost on our farm has increased 20 percent, since 2020. The cost of raising our heifers has increased nearly 30 percent in the same time frame. Transportation costs seem to be a moving target as fuel continues to climb.

Like the make allowance, the differential has not been changed for too long and needs a system in place to make timely adjustments. It is obvious that waiting 20 years and needing a hearing to tune up the influence of everyday costs is an outdated way of thinking. The NMPF proposal on changing the differential will more closely reflect the realities of moving milk to deficit markets today. Currently, dairy farmers are left covering the increased costs to market.

As a dairy farmer, I really struggle with any increase in make allowance as I know it's a direct cost to my pay price. However, I also understand that all facets of the dairy industry must work together to bring our products to consumers. The NMPF package of proposals aims to create balance and address multiple needed updates to Class pricing. Any small change in the make allowance greatly impacts my pay price; I support allowing USDA the authority and funding to conduct audited plant cost surveys.

Knowing those true costs are integral to making an accurate adjustment to the make allowance. Also, the true final cost to dairy farmers must be taken into account. Processors need to be fairly adjusted for the cost of manufacturing but not solely at the cost of dairy farmer milk checks.

Updating component factors for skim milk:

For the discussion on updating component factors, I would like to take off my dairy farmer hat and speak as a dairy nutritionist. When I started balancing rations in the late 1980s, we simply balanced for the amount of protein in the diet. Many changes have taken place since then and we look at fiber, amino acids, carbohydrates, fatty acids vitamins, and minerals. These changes to ration balancing along with continued advances in management practices that result in ever-improving cow comfort will continue to propel dairy cow performance. As cows become more productive and efficient, it seems that solids content in milk, and more importantly, total solids production will continue to increase. Not long ago, 6lbs of solids per cow per day was an admirable goal. There are herds today that are routinely produce much higher solids counts. They are likely a great predictor of where cow output is headed. Simply stated, a hundredweight of milk today isn't the same hundredweight it used to be. Unlike the make allowance request, updating component factors is straightforward.

I thank the Secretary for the opportunity to testify today in support of the NMPF package of proposals. The success of my family farm today, and for generations to come, is dependent upon the outcome of this hearing. I am happy to answer in questions to provide greater insight.