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:

Lucas Sjostrom

Representing Jer-Lindy Farms, LLC

31647 463rd Avenue

Brooten, MN 56316

I am Lucas Sjostrom, and today I'll explain my background and why my farm supports

- **Proposal 1 with the logical outgrowth to also update fat submitted by Edge Dairy Farmer Cooperative**
- **Proposal 3 with the logical outgrowth proposal to use a weighted average of blocks and barrels submitted by Edge Dairy Farm Cooperative**
- **A delay in make allowances increases until yield factors are considered, and if it increases more than $0.40 per cwt All Milk Price equivalent, divided over at least four years**
- **Proposal 16 – Class III Plus – as proposed by Edge Dairy Farmer Cooperative, especially with elimination of advanced prices**
- **And a 15.5-month or greater delay on any changes affecting hedging, contracting, and federal risk management programs**

Background and affiliations

I am here as one of four owners of Jer-Lindy Farms, LLC. My parents-in-law, Gerard and Linda Jennissen, both grew up on dairy farms in Stearns County, Minnesota. My wife, Alise, grew up on our current farm, where we currently live and raise our family with three young children. I also grew up on a Minnesota dairy farm, Sjostrom Farms LLP, in Lafayette, Minnesota. My grandparents, parents, brother and sister-in-law all continue farming there today.

Both my current farm and home farm are co-owners of Bongards Premium Cheese, where our milk is further processed into many different products. However, this testimony is not on behalf of our cooperative nor my parents' operation. I share those notes for transparency purposes.

Jer-Lindy Farms, LLC, based in Brooten, Minnesota, is a 200-cow dairy with a robotic milking system, feed pusher, manure collectors and activity monitors for health and reproduction. We are a Minnesota Agriculture Water Quality Certification Program participant, which built upon the Minnesota Milk Five Star Dairy program. We were recognized as a 2016 U.S. Dairy Industry Sustainability Award winner due to our formation of an on-farm family cheese plant and the International Dairy Foods Association Innovative Dairy of the Year in 2017. We currently have cows making 4.4% butterfat and 3.3% protein on average.

With my wife and her parents, we also own Redhead Creamery, LLC, an award-winning farmstead cheese operation, which received first place natural rind cheddar at the 2023 U.S. Championship Cheese Contest, in addition to numerous other awards at the American Cheese Society and Minnesota State Fair since our operations began in 2014. Our creamery has about six full-time and five part-time staff, making about 70,000 pounds of cheese and providing tours to about 10,000 people annually.

Because of agritourism, we do not believe our farm would or will exist without our creamery, and we don't believe our creamery would or will exist without our farm. Our latest venture is branded Redhead Creamery Spirits. I was thrilled to learn about what we could do with lactose, as we split it, ferment the resulting glucose and galactose, and create alcohol. I also now understand how we derive whey, lactose and various permeates and retentates.

Away from the farm, I hold a bachelor's and master's degree in Animal Science from the University of Minnesota-Twin Cities. I have completed the Young Dairy Leaders Institute by the Holstein Foundation and was admitted as a Policy Fellow at the 9-month University of Minnesota program. My project was on winter housing for an organically grazed herd, but also consisted of precision data collection on pasture growth, activity monitors, milk quality and fly management. I have worked in government relations and communications for Holstein Association USA, as an associate editor with *Hoard's Dairyman* magazine, associate editor with *Dairy Herd Management* magazine and farmer relations for Midwest Dairy.

Today, I concurrently work as executive director of Minnesota Milk Producers Association and managing director at Edge Dairy Farmer Cooperative. Minnesota Milk Producers Association focuses on issues affecting the state capitol in St. Paul and therefore has taken no positions on any of these issues.

Experience of FMMOs from a farmer's point of view

My wife and I officially became part of the farm in 2015. We'd worked on the farm for hourly wages since moving back into her childhood home in 2012.

We were pleased that trade associations like Edge and Minnesota Milk have advocated for risk management programs. I worked at the U.S. House Agriculture Committee as an intern during the last year of the minimum $9.90 Dairy Price Support Program milk price upon expiration in 2007. That is no more. There was first an overlap of the Milk Income Loss Contract program begun in 2002 as the first counter-cyclical dairy program in the modern era, followed by the Margin Protection Program in 2014, and ultimately that was rebranded and reconfigured into the

Dairy Margin Coverage program in 2018. As support was removed from pricing, products such as Dairy Revenue Protection and Livestock Gross Margin for Dairy were added. I've attended many sessions explaining how each of these program works, and, because of my other job, explained the costs and benefits of the latter three programs — not as an expert but in effort to connect farmers with resources who can help.

I spell out these various tools because questions are being asked whether risk management should be considered in this hearing. As I show above, Congress has clearly signaled that dairy farmers should not plan for support to continue and should rely on risk management.

To simplify things, there are two types of farms in the country: those with debt and those without. Obviously, this is a gross simplification, but let me restate it another way. There are farms that can't or won't reinvest into their farm, and there are farms like mine, taking on debt to move our farm to a more sustainable place financially.

My parents-in-law began their herd with a Farmers Home Administration loan, with a slightly negative net worth at the time. They experienced a few good years from 1979-1982 before feeling the 1980s farm crisis right as they took on the loan for our farm — their permanent home.

Long story short, they felt like they recovered in 2002, and after 20 years of at least one of them having an on-farm job, both returned as full-time farmers. They built a freestall barn in 2002, were convinced with state and federal grant money to build an experimental small-scale digester in 2007 and built a pit parlor in 2009. Since we moved home in 2012, we have built a creamery and a machine shed and are currently converting everything within reach to automation. As we do that, we try to plan our income as best we can in effort to get a loan.

Our DMC program is locked in at 2014 rates, when we had about 60 fewer cows. For those of us attempting to improve our farm's sustainability, it is not a realistic risk management program. So, we turn to DRP to have a more risk protection as we take on more projects like these. We ask a broker to always look as far out as possible — as a reminder, DRP trades in quarters of the year, not months. So, you're receiving an average of the available opportunity for each day of the quarter, rather than a monthly contract. In effect, we're always looking 24 months out, but as noted earlier by Dr. Bozic, 15.5 months' notice would be acceptable to implement changes for trading purposes.

As such, I believe DRP, LGM-Dairy and CME Group-type hedging is more important for farms like mine than ever before — farms that fit the definition of a small business for the purpose of this program. DMC is a great program, but to call it "ample" risk management for a dairy like ours, with the next generation trying to dairy farm for another 40 years, is a gross overstatement.

I should mention that, in 2023, things take a lot longer. It took about one year to build the package loan for our creamery and robotic expansion, and it is taking about 8 months to build everything related to it. Those are probably both twice as long as 10 years ago. In other words, not only is risk management a bigger part of life for small business dairy farmers who are growing into their next adventure, but you need to look out longer than usual due to the supply change issues caused in part by the hangover from COVID-19 disruptions, as well as the breakup of globalization.

As a farmer, I cannot understand the rush to implement things like make allowances or other sections discussed here. In most simple terms, an increase in make allowances lowers the paycheck for farmer milk. Without our diversified business and my off-farm job, I don't think our farm would be worth reinvesting into — and the previous generation has plainly told us many times they would have been done years ago if we weren't home.

But while USDA says farmers don't deserve a make allowance for various reasons, and I understand the need for one in the current formula, anything providing comfortability eliminates risk. Without risk, there's no innovation. Help us encourage, but manage, risk.

And while every dairy farm is managed by a hard-working family who must know many things about biology and financial management, I hope USDA pays special attention to the farms who are looking to grow into their next chapter, and, thus, those that will take a little more risk than the average.

I attended the October 2022 American Farm Bureau Federation gathering on FMMOs and found it extremely well done. However, due to harvest timing, membership and interest, only about six farmers from the Upper Midwest states represented over 40 percent of the milk and farms in the country. Like Farm Bureau's membership, attendance heavily skewed to the Southeast. I don't mean this as criticism but rather to point out that some issues weren't really debated, such as Class III Plus versus the Higher-Of. Rather, we all just talked past each other in some areas to serve our regional interests.

Class III Plus was certainly brought up as a proposal, and at my table where we were able to discuss it with members from across the country, it rose to the top. As a newer proposal heard for the first time at that forum by many, I don't believe you could characterize that there was any vigorous debate about the different proposals. I fully recognize Farm Bureau has an extensive resolutions process and Higher-Of is their preferred method of figuring the Base Class I Skim Milk Price. However, to say it was unanimous would be disingenuous.

Experience of FMMOs from a farmstead creamery's point of view

As a creamery taking just about 12% of our farm's production per year, we do not participate in the pool. However, we could certainly make a 40-pound block of cheese. What would that cost? Using estimates, I think our costs would be about $5.50 per pound. If USDA does a mandatory survey, I hope they consider the most efficient plants as their benchmark. I don't think creameries our size should be included, but it sounds like we certainly could be.

Another way to measure efficiency would be to weight the average make costs by the volume.

A lot of talk during this hearing has focused on the early days of the pandemic, whether it will happen again and how to fix federal orders as result. I'm sure many other cheese plants can relate to what happened at our cheese plant on March 13, 2020. We received an order for $0 worth of cheese from our distributor after seeing a stable and growing market over the past 5 years. We live two hours from a major metro area, and basically we use our distributor to cover our payroll, and other sales to cover our other costs. The other costs and our employees on payroll remained part of our business, but suddenly our revenue was gone.

We started a delivery service 24 hours later, using social media to get the word out. Over the next three months, I distributed cheese in empty parking lots of closed stores to some of our new biggest fans. Can everyone pivot as quickly as a small company like ours? I would argue that they could if they tried, especially if they needed to.

Anything we do in this hearing is supposed to affect minimum pricing and the formulas and data behind them. I wish more would go after the maximum – rather than charts looking forward with supply and demand on inelastic products, take a $2 pound of cheese and turn it into an experience, like Starbucks and others took a $0.50 cup of coffee and turned it into a morning drive-thru lineup that sticks out into traffic. We've heard testimony here today that many of the largest plants are more than covered by the make allowance.

One area where FMMOs do affect even small farmstead cheese companies like ours is on grants and loans. Any drop in the official FMMO minimum milk price for our region can mean less opportunities for federal or private grants and loans if a farm is borrowing or matching against milk as an ongoing asset.

Experience of FMMOs from a state trade association point of view

Although the Minnesota Milk Producers Association is not focused on federal policy, we are focused on our state's farmers. So, as the calls come we answer and make impact with our contacts within the federal government as appropriate.

In 2018, we began talking in our board room about the block-barrel spread and what we could do about it. In 2020, National Milk Producers Federation suggested legislation to implement supply management, and we suggested the Dairy CORE (COronavirus REcovery) program, similar to what USDA ultimately rolled out. Minnesota Milk and Edge have long stood against supply management. I cannot imagine Redhead Creamery selling 500 units of cheese curds, and then next week due to "national demand" learning we needed to cut back by 5% and sell less of our sold out cheese. But this proposal keeps rearing its head every few years based on the advantages and disadvantages of certain processors, cooperatives and regions of the country.

In 2021, our organizations helped create Class III Plus in response to quick action asked for by NMPF at the time. For two years, we had conversations with economists about the usefulness of Class III Plus, and we've improved upon it with the carry-forward provisions. While no pricing schema setting a price for a perishable product can be perfect, we should use the data that most sets the price for that commodity. Class III milk futures carry more liquidity than Class IV, and therefore are better represented to set the price. As I understand it, there's not an inherent advantage for a cheese producer or disadvantage for other manufacturers.

Most groups partnering with dairy farmers look for ways to smooth out the peaks and valleys of milk prices. Smoothing out the peaks and valleys invigorates demand, and therefore creates more orderly marketing. At Redhead Creamery, LLC, our customers appreciate a steady price – it would disadvantage both us and the customers if we raised and lowered with every change in the market or our costs week by week. Our customers want to see the same price as last week. The average-of was an attempt to do this, but, of course, no organizations here are advocating for it to stay.

Class III Plus gets us back to the benefits of the M-W price series, as we focus on the constantly traded commodity. As testimony has shown, the M-W price series went out due to a lack of data — a lack of Grade B milk in the market. We did not throw it out because basing the price primarily on the vigorous cheese market of the Upper Midwest was hurting anyone else around the country.

Big changes in the marketplace — trust and transparency

My most important role as executive director of Minnesota Milk and managing director of Edge is to solve problems for farmers. I've been in this role since 2016, and it is clear the industry has changed since 2000.

One of the biggest changes I believe AMS needs to consider is the full structure of our dairy processing plants. Processors are, I would suggest logically and wisely, lining up their supply with their demand. We operated for about 100 years where there was nearly always another market to which you could bring your milk. Unfortunately, the past eight years have proven this expectation no longer true, and USDA-AMS should take this into account. As we think about minimum pricing, constantly full plants mean prices will stay closer to minimum pricing. While many of us work in our local geographic areas to increase demand and plant capacity, the dairy plant of the future is more likely to ensure the cows' milk production lines up with the dairy plant needs.

This creates a system where I've received the following calls, paraphrasing, mostly over the past four years:

1. I have 15 days to find a new milk market. My private processor just sent me a letter, and I have nowhere to go.
2. I have 30 days to find a new milk market. My private processor lost their market, and I have nowhere to go.
3. My cooperative has let a farm go for animal welfare practices, which they seemed to ignore for several years. The farm is now out of business.
4. My cooperative is insisting that my hint that I might shop around for another milk buyer was my notice that I was leaving the cooperative. Effectively, they dropped me 20 days after I explained I would be looking around, but luckily, I was talking to my milk hauler and found out that he was done picking me up March 1. I hope I can get on another truck in the next 10 days.
5. I think my plant has listed large negative PPDs on my milk check without actually pooling their milk.
6. My cooperative gave me a contract that states I can no longer speak publicly about my milk, any disparagement of the cooperative results in my departure and there's no due

process to fight these. I have no options but to sign the contract because I have nowhere to go.

7. My cooperative is paying about $3.00 per hundredweight behind my neighbors, but although I want to ask questions and make a change, I believe calling my cooperative board member could result in my immediate dismissal.
8. I have almost all my feed up for the year, but my cooperative just sent me a letter that they will be tripling my hauling costs to true costs of hauling with 15 days notice. I'm so far away from a plant, along with other farmers in my area, that I need to be done milking cows. How could they give their own cooperative members such little notice?
9. My cooperative thinks my milk had foreign matter but both myself and my milk hauler believe it was just a gasket that had made its way into the milk tank. The cooperative immediately suspended me with no opportunity for appeal.
10. My private processor, a fluid milk bottler, called last night and said they don't need my milk. I've found a depooled cheese plant instead. What are the protections for me getting paid?

About half of these calls were in 2023, and I hope AMS considers it is an extremely difficult time for farmers to speak out against their milk buyer. Relationships are different in any situation, but I believe the above situations were not supposed to exist under a Federal Milk Marketing Order scheme and represent disorderly marketing.

Further, as cooperative board members often have high value benefits such as company health insurance, many would be incentivized to "work for" their cooperative whenever needed. I am not saying any words on stage were pitched from a dishonest state, but rather we should not expect to hear from all the voices that should be represented with the current state of the market in 2023. These situations put the integrity of both the FMMO system and cooperative system at risk, and these are both systems that I believe should be preserved.

Support for proposals

Section 1. We support **Proposal 1 with the logical outgrowth to also update fat submitted by Edge Dairy Farmer Cooperative** for the simple fact that butterfat percentages, in even Holstein herds like ours, have grown to levels not thought possible 50 years ago with genetics, nutrition, and demand provided by the butterfat.

Section 2. Our cooperative also works extensively with barrels, however we worry about their over-influence of the market. Therefore, we support **Proposal 3 with the logical outgrowth proposal to use a weighted average of blocks and barrels submitted by Edge Dairy Farm Cooperative**. It is difficult for us to support any of the proposals related to Class III and Class IV Formula Factors, on their own or as part of a package. We know that our farm and cheese operation are always looking for efficiencies but receive no "make allowance" for milk production. Yet, when it comes to the higher costs in the processing plant, farms feel the same labor, fuel, and disposables impact on a percentage basis. With such a lag in make allowance updates, and no call for it in over 20 years, 15.5 month delays and slow step-ups over a handful of years would be the best way to ensure more farms stay in business, and everyone can plan and manage their risk for the future no matter what the level will be. We support **Proposal 16 – Class III Plus – as proposed by Edge Dairy Farmer Cooperative**. We should note that, contrary to prior testimony in an exchange between

Concluding comments

Jer-Lindy Farms, LLC, thanks Secretary Vilsack and the Department for the opportunity to testify at the hearing. I am fortunate to have been involved in milk pricing over the past 15 years and see the evolution of farming, risk management and processing opportunity for farms like mine.