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 In Support of Logical Outgrowth of Proposals #13, #14, #15, #16, #17 and #18

Testimony Presented By:

Lucas Sjostrom, Managing Director

Edge Dairy Farmer Cooperative

2763 Manitowoc Rd # B

Green Bay, WI 54311

Edge participates in this proceeding not just to advocate for the proposals we have filed, but also to learn from other participants, challenge and draw the best out of all witnesses, and contribute to finding a solution that work well for producers, processors and consumers of dairy products. In that spirit, we previously suggested slight modifications to National Milk Producers Federation's (NMPF) proposal #1 on standard milk composition, and a proposal that would reduce, but not eliminate the role of barrel cheese in determining the value of protein.

This week, the topic before us is Base Class I Skim Price. In various testimonies this week, we heard the need for hedging raw milk input costs by manufacturers of extended-shelf-life (ESL) and aseptic milk products who typically offer their buyers a fixed price, i.e. a price that does not change from month to month. In contrast, most manufacturers of the traditional HTST (high-temperature short-time) products have no need to hedge, as they simply pass through any month-to-month changes in Class I milk price to buyers of their products. Exceptions to this would be sales to schools, government, and food service.

The difference in marketing practices among Class I handlers creates a situation where a subset of fluid milk product manufacturers is pleading with USDA not to take away their ability to hedge, so they may continue to provide a flat price to their customers and effectively manage their Class I price risk. Others in the HTST space are protesting any proposals under which they would need to *start* hedging if advanced prices were abandoned.

Having heard all the evidence presented so far, Edge would like to invite all participants at this hearing – trade associations, producers and processors, and particularly USDA to think "outside the box." We believe it is possible to find a pricing method for Base Class I Skim Milk Price that would meet everyone needs, in line with the policy objective set in the Sect. 2(4) of the Agricultural Marketing Agreement Act to look for solutions that "avoid unreasonable fluctuations" in price.

To that end, Edge would like to introduce a "logical outgrowth" proposal based on submitted proposals and evidence heard thus far. Our objective is to preserve the ability to hedge by those Class I companies that do hedge, while at the same time return to the higher-of approach of pricing fluid milk where hedging is not used or needed. Essentially, this proposal combines proposal #13 by the National Milk Producers Federation and Proposal #16 by Edge Dairy Farmer Cooperative. It also combines discussions found in testimonies and cross-examination from proponents of all six proposals noticed for this section.

Proposal 13 stipulates a reversal to higher-of as existed prior to 2019, which would decimate nascent hedging programs by Class I handlers. In contrast, Proposal 16 abolishes advanced prices, and pushes the sector further towards hedging, even beyond the current average-of regime. How can these two be reconciled?

We propose that AMS consider splitting Class I milk into two sub-classes:

- Traditional **Class I,** available to HTST manufacturers, and utilizing the NMPF's proposal 13 to price the Class I milk.
- A new **sub-class I-H** (H for "hedgeable")**.** All milk processed as Extended Shelf Life or aseptic would be automatically classified to I-H, and others can elect it if they can demonstrate to market administrator's satisfaction that they are regularly offering their product on forward price basis, and are currently hedging, or wish to start utilizing hedging tools to manage their price exposure. The milk in Class I-H would be priced per proposal 16 – Class III Plus, with no advanced prices. To prevent adverse selection, the switch between sub-classes should be difficult to make, and with a very long lead time. We suggest a lead time of at least 24 months.

We anticipate that providing specific, targeted pricing incentives that facilitate hedging could spur further growth of the ESL/A fluid milk sector, adding innovation into the fluid milk category.

ESL/A milk continues to be a growth area for dairy. Since 2019, nearly 30 HTST plants have been shuttered, and 11 new ESL/A plants have been opened. This trend, if continued, would imply an ever-rising share of Class I milk that is priced based on Class III Plus, but with a gradual transition towards Edge's preferred solution. At the present time, we anticipate that 10-30% of Class I milk is hedged or offered on flat price basis and would qualify for sub-class I-H. Those dairy producers anxious to return to higher-of pricing would see 70-90% of Class I milk priced again using the formula they understand and trust.

Edge members and all U.S. dairy farmers have repeatedly asked for more innovation in the fluid milk sector. One way to lower risk and allow more opportunities for innovation is to lengthen the shelf life of the product, and manage the risk associated with the flat price contracts or inventory value.

Finally, dairy farmers want to see the best price discovery possible. While the regular Class I and the subclass I-H are both fluid products, with mandatory pooling, they do deserve separate pricing solutions and the accompanying risk management tools to go along with them.

Per proposal #22, AMS is authorized to make such changes as may be necessary to make the respective marketing orders conform with any amendments thereto that may result from this hearing. We strongly believe that the proposal we are submitting today is a logical outgrowth of the discussion heard so far, and respectfully request that USDA rule before the end of the in-person hearing proceedings whether they would find this proposal, and other outgrowth proposals submitted thus far by Edge, as admissible. Such ruling is not prejudicial, i.e., does not indicate that USDA prefers those proposals over others, but would provide incentive to all parties to offer their substantive comments in post-hearing briefs in favor, or against such outgrowth proposals, or deepen the ideas presented thus far with detailed suggestions for implementation.

These changes create a pathway towards solution by utilizing the combined wisdom shared throughout this important process.