

Milk in the Northeast and Other Marketing Areas

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Testimony of Lone Star Milk Producers, Inc.

September, 2023

Ladies and gentlemen, my name is Brian Hemann, a lifelong dairy farmer from Kansas. I operate four farms in Southwestern Kansas and the Oklahoma Panhandle, and I am president of the Board of Directors of Lone Star Milk Producers, Inc. Lone Star is a member of the National Milk Producers Federation (NMPF). Today, I come before you representing Lone Star Milk Producers and both Lone Star and I fully supporting NMPF Proposal Number 13.

The proposal aims to address the critical issue surrounding the evolution of the current Class I mover. As an organization deeply invested in the dairy industry, we have witnessed firsthand the detrimental effects of the current Class I mover on our cooperative and the dairy farmers we represent. It is imperative that we bring attention to this matter and advocate for a swift resolution.

Federal Order Reform introduced a new Class I mover based on the higher of the advanced Class III or Class IV skim milk prices to accurately reflect milk value and ensure equity among dairy farmers. It aimed to prevent shifts in demand from lowering Class I prices and reducing volatility. However, the 2018 Agriculture Improvement Act changed the formula to the average of the advanced Class III and Class IV skim milk prices plus a fixed \$0.74 per hundredweight

differential, leading to Class I revenue losses when the spread between the advanced prices exceeds \$1.48 per hundredweight.

My farm risk management strategy is built on the ability to forecast Federal Order Blend Prices and blend price changes. The current formula disrupts blend price forecasting due to the significant increase in the incidence of depooling and hinders my effective hedging against the blend price, causing instability and financial vulnerability for my dairy farms. Other Lone Star members also have experienced the same hedging difficulties and we all have felt the impact of lower Class I prices in our monthly milk checks.

In light of the adverse consequences that have emerged from the current Class I mover formula, it is of utmost importance that we take immediate action to rectify the situation. The implications of the existing formula, with its inherent flaws and unintended consequences, have had a profound and detrimental impact on dairy farmers and the stability of the industry as a whole.

Therefore, I and Lone star Milk Producers wholeheartedly support the proposal put forth by National Milk Producers Federation to return to the original Class I mover, which is the higher of Class III and Class IV skim milk formula, as initially adopted in Federal Order Reform. The reasons that justified this decision when it was first implemented remain valid in contemporary dairy markets and will continue to hold relevance moving forward.

In conclusion, I urge the Secretary to adopt Proposal Number 13. By reinstating the higher of formula, we can accurately reflect the value of different milk categories, reduce volatility in blend prices, and address disorderly marketing conditions that impact my own farms. The return to the highest mover formula will allow me to execute the risk management strategies that suit my farm operations. This amendment will also restore competitive equity among dairy farmers

and regulated handlers while ensuring a fair and stable pricing system as a necessary tool to effectively hedge against market fluctuations and manage their price risk.

Thank you for the opportunity to present this testimony, and I wholeheartedly support adopting proposal Number 13 for the betterment of our dairy industry and the hardworking individuals it represents.