Exhibit MIG/AE – 17

UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

In re: Milk in the Northeast and Other Marketing Areas	7 CFR Parts 1000 *et seq.* Docket No. 23-J-0067; AMS-DA-23-0031

CARMEL, INDIANA
AUGUST 2023

TESTIMONY OF ANDERSON ERICKSON DAIRY COMPANY, PART 1 REGARDING NATIONAL HEARING ON FEDERAL MILK MARKETING ORDER PROPOSALS

September 16, 2023

I. BACKGROUND

A. PERSONAL BACKGROUND

My name is Warren Erickson, President and Chief Financial Officer of Anderson Erickson Dairy Company in Des Moines, IA. I have been a full-time employee of Anderson Erickson for 26 years and have been exposed to the dairy industry my entire life. I have a Bachelor of Business Administration Degree from The University of Iowa and also have a Master of Arts in Accounting from The University of Iowa. I am a Certified Public Accountant and have 6 years of experience in public accounting with Arthur Andersen LLC. In my role at Anderson Erickson, I am intimately involved in milk procurement and the pricing of our end products.

B. COMPANY BACKGROUND

Anderson Erickson Dairy is located at 2420 E. University Avenue, Des Moines, IA 50317. All of our products are produced at this location, they include fluid milk of all sizes, ice cream mixes, cottage cheese, yogurt, sour cream and dips as well as some other non-dairy juices and drinks. Anderson Erickson was started in 1930 by my grandfather Iver Erickson. We ship our products all over the State of Iowa and also into Kansas and Missouri around the Kansas City metropolitan area. Our plant is in Central Federal Milk Market Order 32. All of our milk comes from the State of Iowa and it is all direct shipped to our plant from individual farmers. We are a small business as defined by the SBA and a small player in the dairy processing world. In 2022 we purchased around 270 million pounds of milk to produce our various products.

Anderson Erickson Dairy is unique in the dairy world. We are a small family-owned and operated milk processor. We are almost a century old company. Our roots go deep in the State of Iowa and we have a very loyal following among our valued customers. Our 400 employees stake their livelihood on our success and our ability to compete in the marketplace. We have partnerships with Iowa dairies who provide their milk to us and allow us to continue to focus on dairy products and our customer base. We are not a cooperative and do not enjoy any of the benefits those large entities have in either the marketplace or the Federal Milk Marketing Orders.

II. SUPPORT FOR MIG PROPOSALS

AE is a member of the Milk Innovation Group ("MIG") and supports its proposals at this hearing. I am here today to testify on MIG's Proposal 20. I believe that the Class I Differentials should be based on facts and actual computations. MIG Proposal 20 looks at three components of the Class I Differential and proposes to adjust the amounts based on actual market conditions.

1. **Grade A Compensation:** Of the current $1.60 Class I Differential, $.40 is related to maintaining Grade A milk supplies. All of the milk purchased by Anderson Erickson is Grade A. I have never encountered a Grade B milk producer nor have I ever discussed Grade B milk with any suppliers of raw milk (AE could not purchase Grade A milk for its Class I products, but in conversations with suppliers I have never even heard mention of them producing or selling Grade B milk to any other buyer). According to the State of Iowa Agriculture Department, as of August 1, 2023, there are 741 permitted dairy farms in the State of Iowa. Of those, only 7 farms are Grade B – and none of those farms have milk pooled on a Federal Order. So over 99% of the dairy farms in Iowa are Grade A (and if this were computed as a percentage of pounds of milk produced the number would be even higher), and NASS reports show that 100% of the farm milk marketed is Grade A.[1] Grade A milk is a market expectation – there is no longer any need to ensure compensation for this quality standard because a marketwide shift has already occurred. Additionally, pricing for Grade A milk is built into both Class III and Class IV prices because milk pooled for Class III and IV must be Grade A pursuant to 7 C.F.R. § 1032.12, and therefore is already incorporated in the Class I price. Including $0.40 in the Class I Differential for Grade A milk costs is double counting these costs and it should not be included in the Class I Differential.

[1] USDA NASS, Milk Production, Disposition, and Income 2022 Summary, April 2023. Milk Production, Disposition, and Income 2022 Summary 04/27/2023 (cornell.edu).

2. **Balancing and Marketing Compensation:** Balancing and marketing costs are $.60 of the current Class I Differential. Balancing milk is a challenge that all processors have to deal with, whether they are a regulated plant or not. The answer to the challenge for us is purchasing milk from an entity that has the capabilities to balance supplies for us, but we have to pay an over-order premium for that arrangement. There are multiple parties that specialize in this area – including coops who will divert milk not needed to cheese and powder plants or other suppliers who have the ability to divert milk to other areas when it is not needed. AE always pays more for milk that is used to balance a Class I plant. In our instance we have a sole supplier agreement with some farms in which we take all the milk they produce. In order to balance our supply needs we have to augment those supplies with another supplier who has the ability to balance for us. That milk is clearly more expensive as we are paying for the balancing services. The coop method of charging for balance needs is to charge an additional premium for milk loads NOT purchased each of the 7 days of the week. This premium can change but is currently more than the $0.60 built into the Class I differential. This charge shows that the Class I differential is not addressing balancing – cooperatives are charging for it on a case-by-case approach when appropriate. The market is appropriately addressing balancing costs and they have no place in any minimum price. Additionally, there is no “flat rate” for what balancing costs a producer because processors also carry balancing costs, to varying degrees. For example, AE balances internally by adding raw milk storage so we can avoid the additional balancing costs charged by suppliers. The idea that the Class I Differential helps in any way compensate for these balancing costs is just not accurate. These costs are borne specifically by the plants and suppliers in ways that vary based on the

relationship and where they are used and should not be part of the Class I Differential.

3. **Incentive for Class I Market Service:** The third component of the current Class I Differential to discuss is $.60 related to attracting milk to Class I Plants. Class I plants pay over order premiums to attract milk. There is currently an abundance of milk available and further incentives should not be included in the Class I Differential related to attracting milk. Clearly it is not the case that there has never been a shortage, and I would never say so. But supply shortages are becoming rarer and are always addressed by over order premiums. It should not be addressed within the Class I Differential that gets diluted among many producers that never consider shipping to a Class I plant. Adding this incentive compensation to the current Class I Differential magnifies disorderly marketing in the supply chain. If the USDA thinks that there is a problem attracting milk to Class I plants, they should devise a system where the farms that actually supply Class I plants are compensated directly from the pool rather than being diluted by sharing with all other producers. MIG put forth a proposal establishing a system of Assembly Credits that would compensate farmers for shipping to Class I plants. That proposal was not even considered at this hearing. This third incentive component of the Class I Differential should not be included as it is neither necessary nor effective.

Our proposal, if all three parts were accepted, would decrease the Class I Differential by $1.60 to update the computation with the realities of the current market. Class I Differentials were established in a different time when market conditions and transportation realities were significantly different. If we are looking at the current realties the Class I Differentials should be decreased by $1.60.

As a very small company, our very ability to survive is at stake with these discussions. If Class I Differentials do not reflect current realities, it puts us at a competitive disadvantage with other consumer options. Certainly, the cooperatives have the ability to shift funds (primarily through reblending but there are other methods also) to avoid the direct effect of Class I Differentials. There are plenty of other options for consumers that do not have archaic pricing methodologies and are not dairy based. These would include water, all manner of other "milk" products that contain no dairy whatsoever, protein-enhanced workout drinks, and other options available. In order to be able to compete, we must alleviate the current burdens in place on companies like AE under the FMMO system.

III. CONCLUSION

We are trying to fix a system from a very different time subject to very different market realities. Class I milk is no longer anywhere near the majority of milk that flows through the US Dairy complex. Anderson Erickson recognizes that parts of this system need to be adjusted. Make allowances have not been touched for decades and are hard coded in the system. But while they should be looked at, those changes should not come at the expense of Class I prices and Class I processors. Saddling Class I with extra costs is going to make our products less competitive and will not benefit the US dairy market. This might seem like a small thing to many, but to Anderson Erickson, our farmer partners, our employees, and our customers, this is a very large issue. We desire to keep delivering the very best dairy products to the Iowa, Kansas, and Missouri areas we serve, but we are also subject to fundamental economic realities. A healthy Class I market will enhance dairy overall and should be encouraged. I support a healthy system for everyone and continue to have a vested interest in a good outcome for all parties!

DATED this 16th day of September, 2023.

By *[/s/ Warren Erickson]*
WARREN ERICKSON