Federal Milk Market Order Hearing Testimony

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Chief Financial Officer

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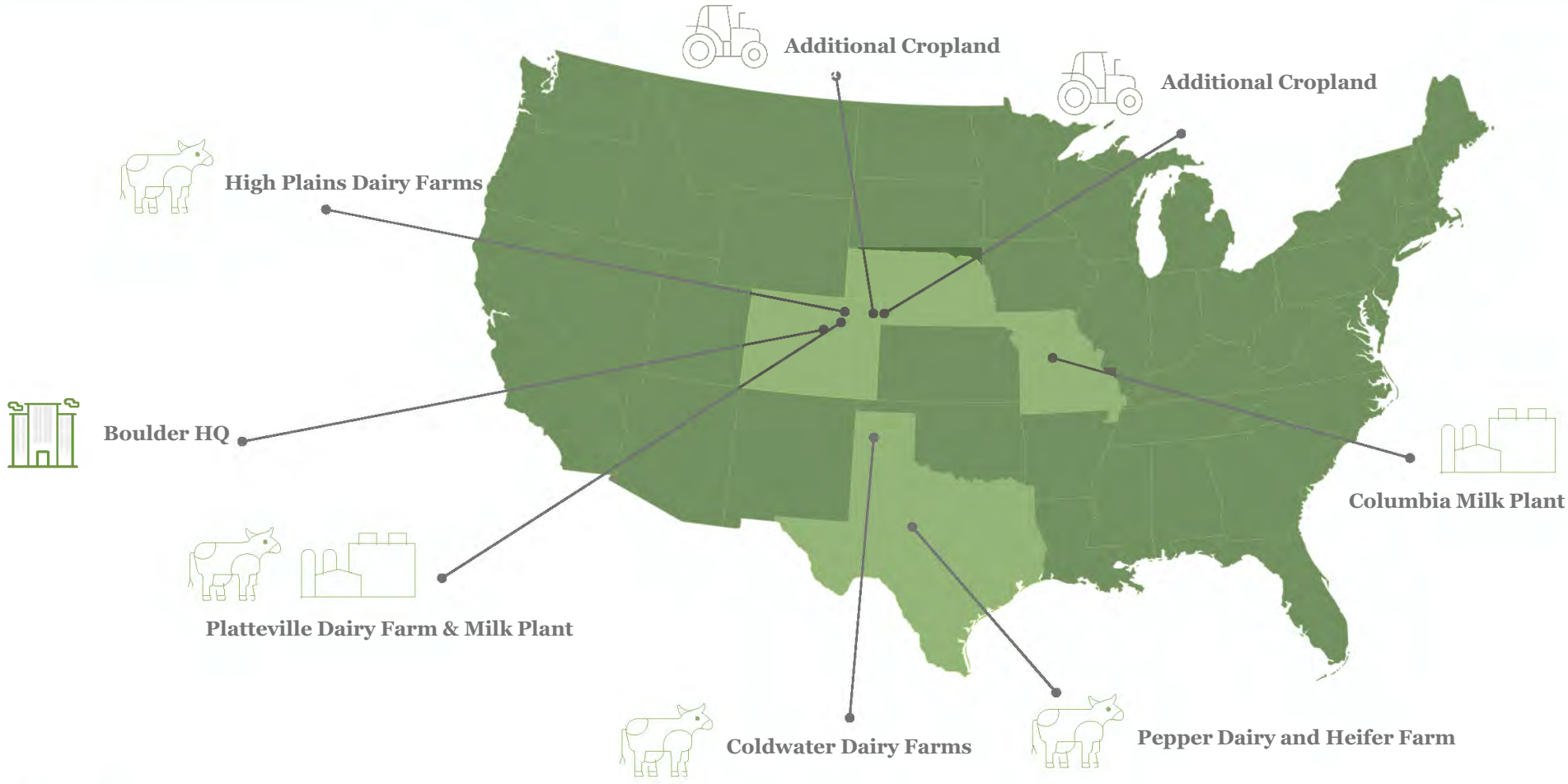
Aurora Organic Dairy owns and operates four dairy farms in Colorado and Texas.

Aurora Organic Dairy operates two extended shelf life / aseptic processing plants.

Aurora Organic Dairy's vertically integrated operating model goes from crop to cow to carton.



Aurora Organic Dairy's products include organic fluid milks, creams & butter for retail and consumer brand owners.

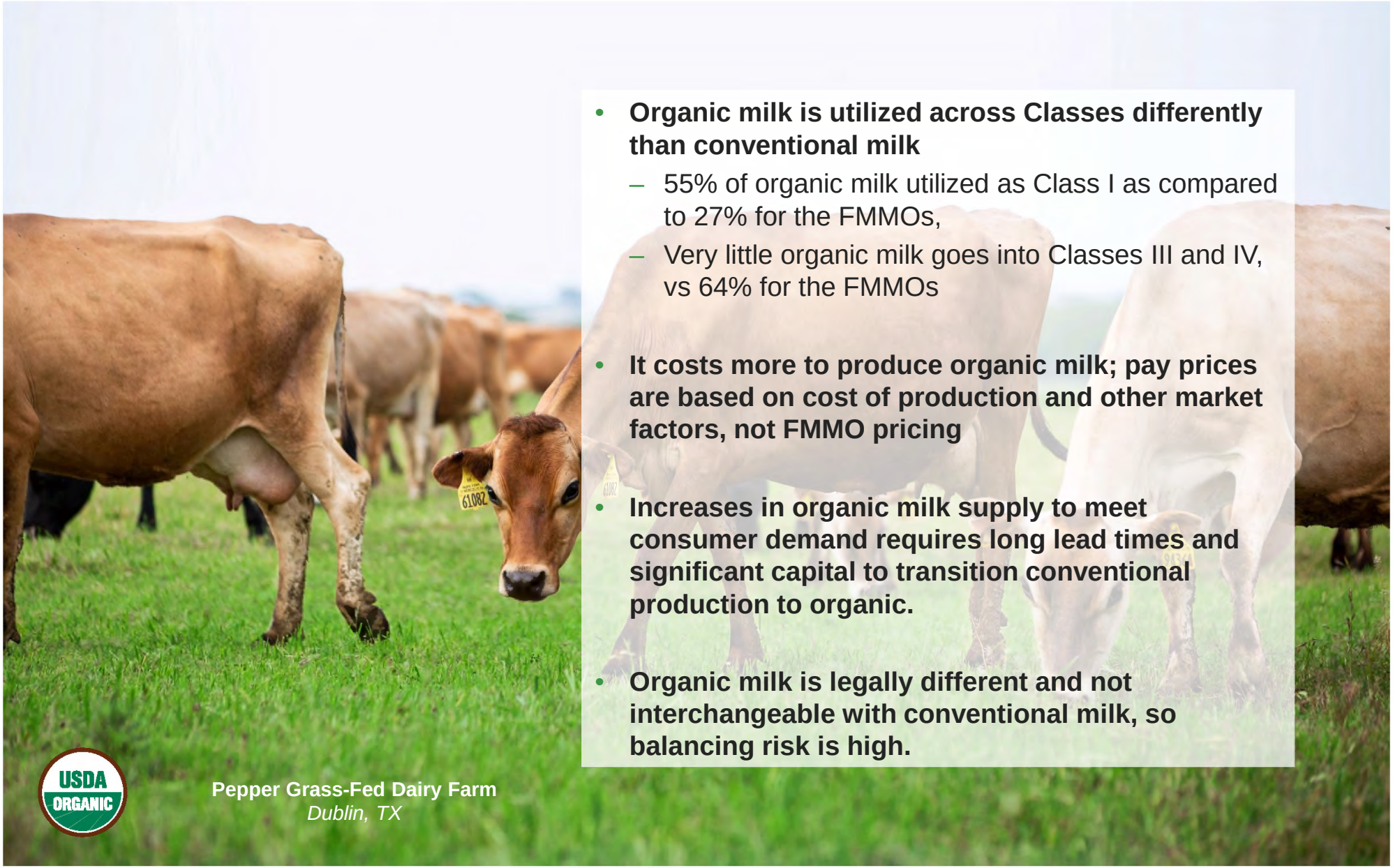
- **Milk varieties:**
  All Fat Varieties & Flavored milks
  Lactose Free, A2, Omega-3, Grass-fed
  ESL & Aseptic shelf life

- **Butter**

- **Packaging Options:**
  128oz, 64oz, 32oz, 16oz, 12oz and 8oz

- **Half & Half and Coffee Creamers**

There are unique aspects of the organic fluid milk market that make it different than conventional.



- **Organic milk is utilized across Classes differently than conventional milk**
  - 55% of organic milk utilized as Class I as compared to 27% for the FMMOs,
  - Very little organic milk goes into Classes III and IV, vs 64% for the FMMOs
- **It costs more to produce organic milk; pay prices are based on cost of production and other market factors, not FMMO pricing**
- **Increases in organic milk supply to meet consumer demand requires long lead times and significant capital to transition conventional production to organic.**
- **Organic milk is legally different and not interchangeable with conventional milk, so balancing risk is high.**

Pepper Grass-Fed Dairy Farm
Dublin, TX

Aurora supports MIG Proposal 20 to reduce the Class I Differential from $1.60 to $0.

- **Eliminate $0.40 for Grade A status**
  - Not aware of any organic Grade B milk anywhere.

- **Eliminate $0.60 for Balancing**
  - The FMMO system does not provide any mechanism to balance organic milk supplies
  - We forecast demand long into the future and have to err on the side of being long, not short, so we already take balancing risk and bear the cost
    - Invested significant capital to balance our supply through ESL processing and storage
  - Balancing costs are not borne by producers alone, but are shared between processor and producer.

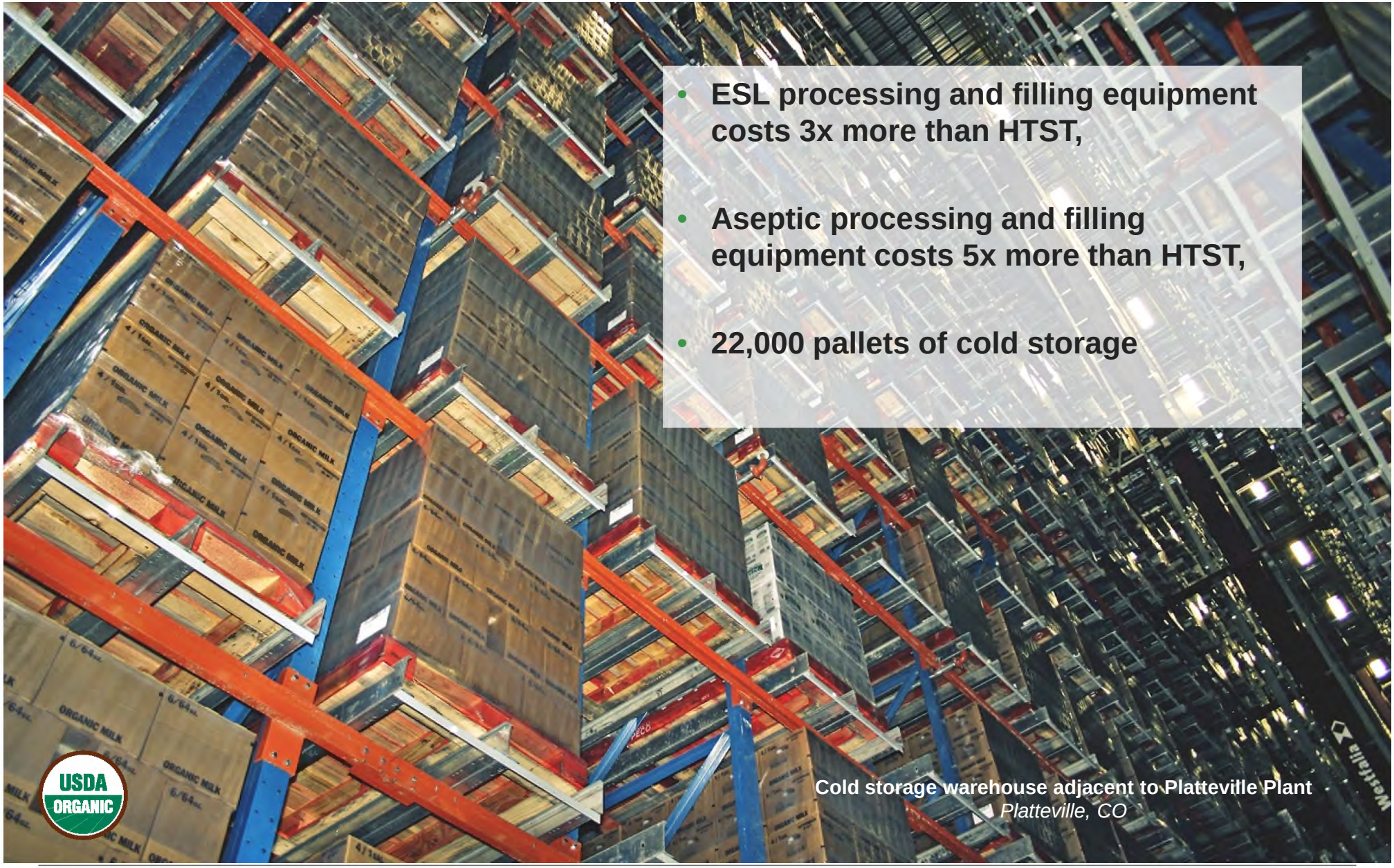
- **Eliminate $0.60 for Incentives**
  - FMMO system incentives do not attract additional organic milk into Class I.

Aurora uses many different tactics to balance our organic milk supply to customer demand.

1. Produce products with long code dates (65 – 240 days),
2. Maintain significant levels of inventory,
3. Produce into organic powder (but at an incremental cost and value loss) that is then used to fortify for CA fluid sale, or we have to find a market,
4. Adjust herd management practices at our dairy farms and/or collaborate with our outside dairy farmer partners (increases the cost of milk),
5. Dump or send to animal feed (complete loss),
6. Selling into conventional not a viable option.

Over the last 10 years, Aurora has sold 0.4% of our milk supply into the conventional market. All of this milk was sold into Class III or Class IV uses, at prices at or below classified pricing.

Aurora has invested significant capital in our facilities to assist with balancing our organic milk supply.



- **ESL processing and filling equipment costs 3x more than HTST,**
- **Aseptic processing and filling equipment costs 5x more than HTST,**
- **22,000 pallets of cold storage**

Cold storage warehouse adjacent to Platteville Plant
Platteville, CO

The FMMO system does not create any incentive to produce additional organic milk to meet consumer demand.

- **We have invested the capital and taken the financial risk to ensure sufficient organic milk supply,**
- **We have transitioned thousands of acres to support organic dairy production, and**
- **We have supported other organic dairies as well.**

Aurora opposes Proposal 19 (NMPF's Class I Differential)

- The Class I differential should not be increased in Colorado because Colorado has an adequate supply of milk to service both conventional and organic fluid milk markets.

- Increasing the differential to compensate farmers for increases in hauling costs does not make sense for organic milk, since hauling costs are typically borne by the processor, not the producer.

- The organic supply chain works differently than conventional and we must not use conventional dairy activity to set policy for organic dairy.
  - Organic milk and conventional milk are legally different and not interchangeable.
  - The University of Wisconsin model does not distinguish between organic and conventional farm milk supply and dairy product demand.

Colorado's milk supply has increased substantially to service both conventional and organic markets.

TABLE 1

	2008	2019	% Chg	
Total U.S. Resident Population (in Mil's)	304	328	8%	(a)
Total U.S. Fluid Milk Products Mil. Lbs.	55,140	46,240	-16%	(b)
Total Conventional Products Sold Mil. Lbs.	53,464	43,659	-18%	
Total Organic Milk Products Mil. Lbs.	1,676	2,581	54%	
Pounds of milk per capita	181	141	-22%	

	State Population (in Mil's) (c)			Milk Production (in Mil's)			Beverage Demand (in Mil's)			
	2008	2019	% Chg	2008	2019	% Chg	2008	2019	% Chg	
Colorado	4.89	5.76	18%	2,935 (d)	4,807 (d)	64%	887	811	-9%	(h)
Organic Milk Production (in Mil's)				105 (e)	277 (f)	164%				
Conventional Milk Production (in Mil's)				2,830 (g)	4,530 (g)	60%				
Organic Share of U.S. Beverage Demand							3.0%	5.6%		(i)
Organic Beverage Demand in Colorado (in Mil's)							27	45	68%	(j)
Conventional Beverage Demand in Colorado (in Mil's)							860	766	-11%	(k)
Organic Surplus / (Deficit) to Supply (in Mil's)							**78**	**232**		(l)
Conventional Surplus / (Deficit) to Supply (in Mil's)							**1,970**	**3,764**		(l)

DFA has an adequate supply of conventional milk available to meet the needs of conventional Class I in Colorado.

TABLE 2

	2000	2022	% Chg	
Total U.S. Resident Population (in Mil's)	282	333	18%	(a)
Total U.S. Fluid Milk Products Mil. Lbs.	55,495	43,270	-22%	(b)
Total Conventional Products Sold Mil. Lbs.		40,425		
Total Organic Milk Products Mil. Lbs.		2,846		
Pounds of milk per capita	197	130	-34%	

	State Population (in Mil's) (c)			Milk Production (in Mil's) (d)			Beverage Demand (in Mil's) (e)		
	2000	2022	% Chg	2000	2022	% Chg	2000	2022	% Chg
Colorado	4.33	5.84	35%	1,924	5,314	176%	852	758	-11%

Organic Share of U.S. Beverage Demand	6.6%	(f)
Organic Beverage Demand in Colorado (in Mil's)	50	(g)
Conventional Beverage Demand in Colorado (in Mil's)	**708**	(h)
DFA-CO Production Available for Conventional Class I (in Mil's)	**790**	(i)
DFA Surplus / (Deficit) (in Mil's)	**82**	

In organic, milk hauling costs are typically borne by the processor, not the producer.

- **Organic milk price is not related to classified pricing under the Federal Orders, or payment to the producer settlement fund.**
- **Organic farmer income is not affected by decisions regarding which plant receives their milk, nor by transportation cost increases.**

Platteville Dairy Farm and Plant
Platteville, CO

The University of Wisconsin model does not accurately reflect my organic supply chain.

FIGURE 1
Excerpt from Dr. Nicholson Figure 5. Milk Assembly at Fluid Plants and Packaged Milk Flows (small USDSS model), May 2021 (Exhibit 302)

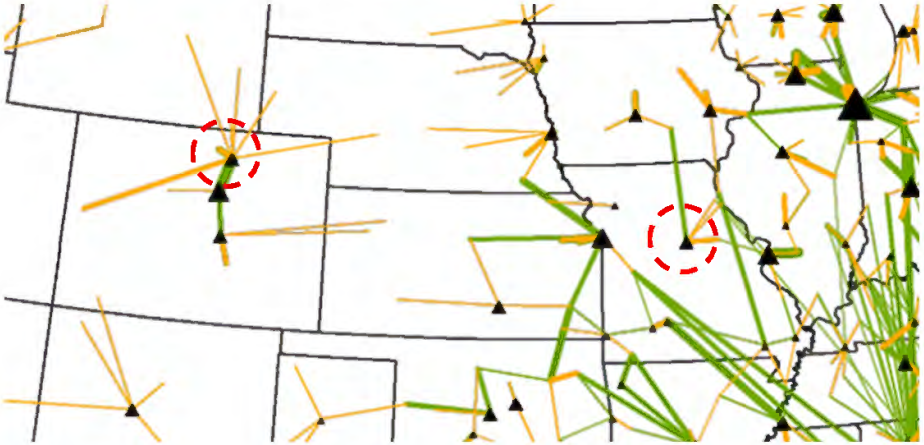
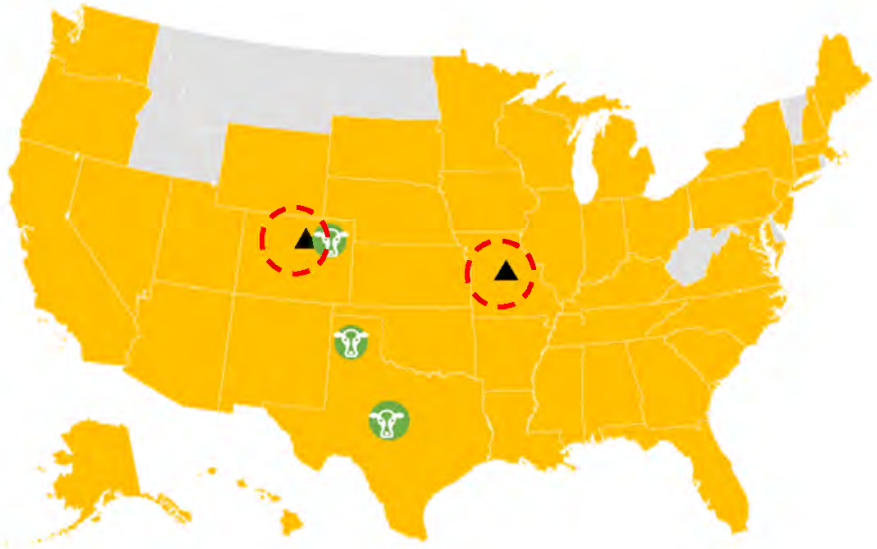


FIGURE 2
Aurora Organic Dairy Milk Production and Processing Footprint and Packaged Milk Flows, 2023



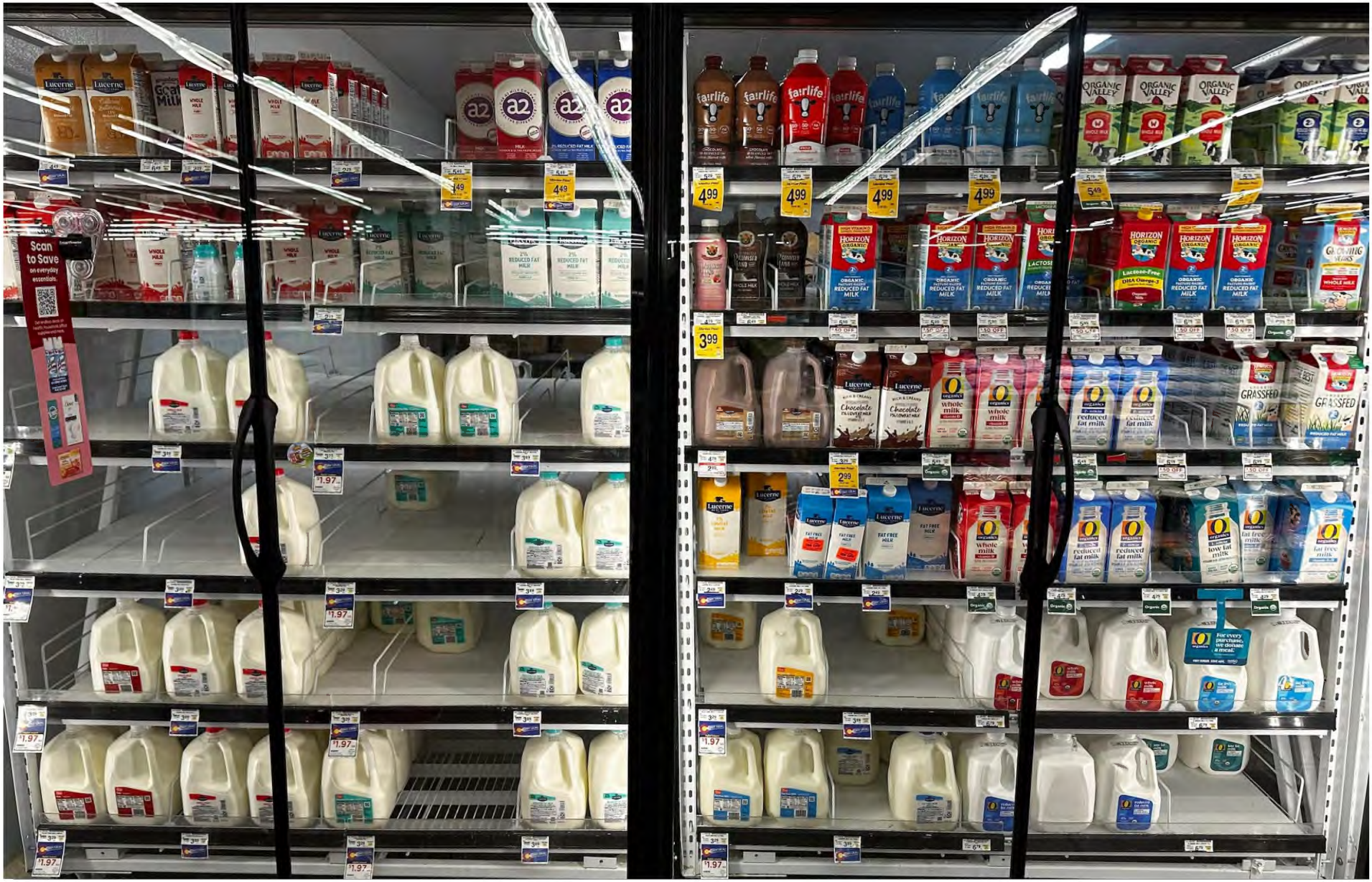
Aurora also opposes the following proposals:

- **Proposals 1 and 2 (NMPF's and National All-Jersey's Milk Component Factor Proposals)**
  - Changes in the component values in the skim price formulas for Class I which effectively increase the Class I price do not change the value of fluid milk in the marketplace.

- **Proposals 13, 16, 17 and 18 (NMPF's Edge's and AFBF's Base Class I Skim Milk Price "Mover" Proposals**
  - Organic prices are not associated with classified pricing, so changes in the mover do not benefit organic producers.
  - Class I conventional processors should have access to the same risk management tools as all other market participants.

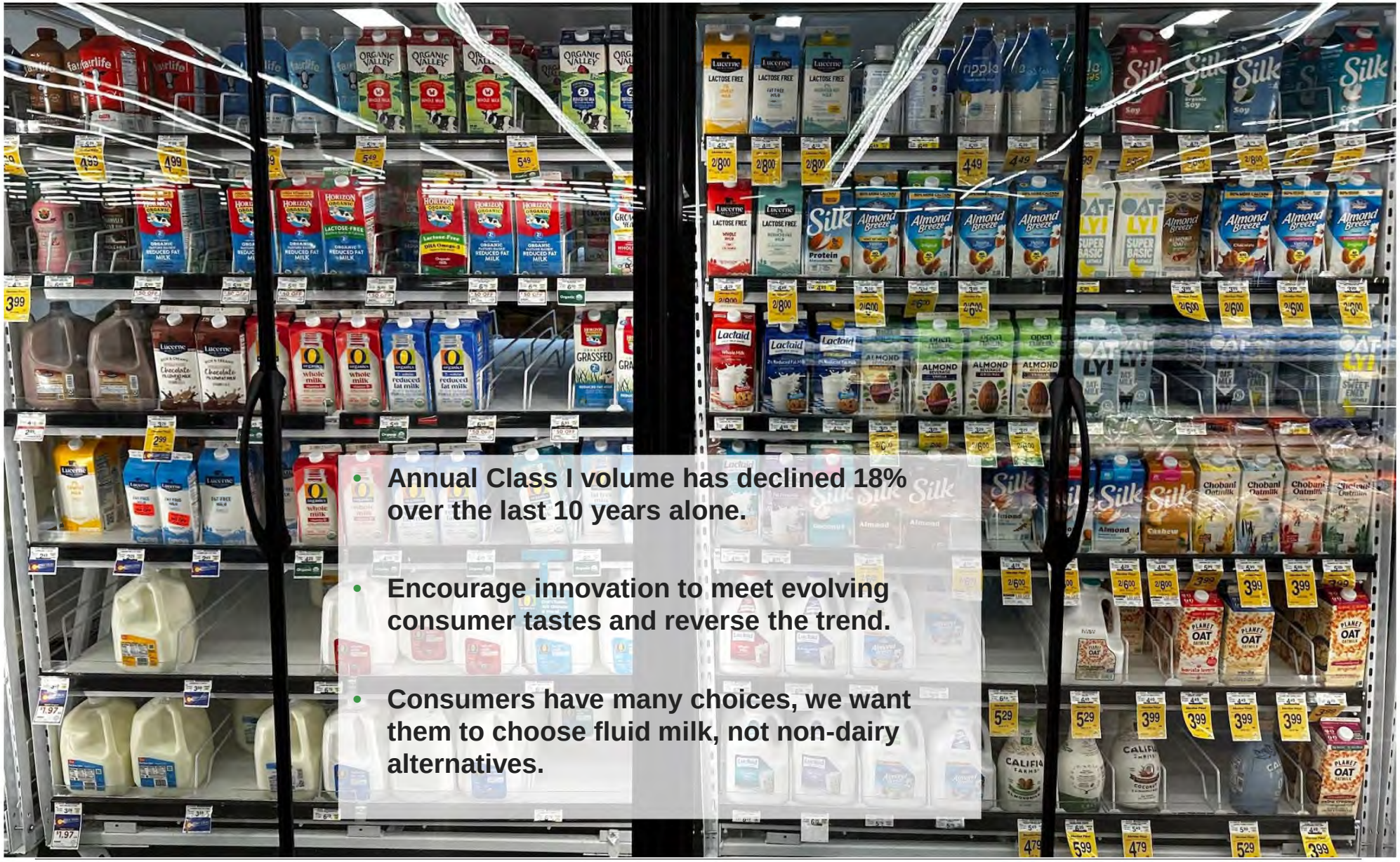
- **Proposal 21 (AFBF's Class II Differential)**
  - Aurora produces Class II fluid creams which are not formulated in the same manner as cultured Class II items or ice cream mix.
  - Increasing the differential simply increases Aurora's cost without providing any benefit to offset.

Price matters… $1.97 conventional gallons.



Picture taken January 11, 2024, Superior, CO

The health of Class I is in jeopardy, and we must implement policy changes that will improve it, not hurt it.



- **Annual Class I volume has declined 18% over the last 10 years alone.**
- **Encourage innovation to meet evolving consumer tastes and reverse the trend.**
- **Consumers have many choices, we want them to choose fluid milk, not non-dairy alternatives.**

Picture taken January 11, 2024, Superior, CO


THANK YOU
USDA
ORGANIC
High Plains Dairy Farm
Gill, CO