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:
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Hearing Subject Area: Class I and Class II Differentials

My name is Mike Herting. I am the Director of Operations and Accounting for the Southeast Area of Dairy Farmers of America (DFA). I have worked for DFA over 31 years in a variety of positions within accounting, marketing, logistics, and information technology analytics. My work experiences during this time have allowed me to work within multiple phases of the marketing of milk including the analytics, planning, and execution of efficient milk movements.

DFA is a national dairy cooperative that includes membership and operations across the continental United States. Currently, DFA has 835 farmer-owners within its Southeast Area, producing approximately 5.7 billion pounds annually, with the majority pooled on Federal Orders 5, 6, and 7. The average farm size is around 258 cows per farm. Nearly all of our farmer-owner milk is picked up and delivered across the region by third party contract haulers. Additionally, DFA owns and operates 9 dairy manufacturing facilities within the Southeast Area (SEA) that receive raw milk to make a variety of products including, but not limited to, fluid milk, ESL milk products, retort products, cream, and condensed skim. The facilities operate as pool distributing plants, a pool supply plant, and an unregulated plant within Federal Orders 5, 6, and 7. Additionally, there are two other plants that operate within the Southeast that do not receive raw milk but receive milk components to make coffee beverages, ice cream, and specialty concentrates.

I appear today on behalf of Dairy Farmers of America and National Milk Producers Federation (NMPF) in support of Proposal 19, to update the Class 1 price surface. This action is a much-needed step to help dairy farmers recover a small portion of the additional costs they have been burdened with since the price surface was last updated.

Declining milk production in the Southeast, combined with the closing of processing plants, forces milk to move further to markets at greater transportation expense. The farmers that continue to supply these markets, through their milk marketing cooperatives, bear the majority of these costs. This causes additional economic pressures to family farms within the region. Along with these headwinds, the growing population of the Southeast compounds the situation, by increasing demand for fluid dairy products in an already deficit supply region.

In the Southeastern U.S., the majority of raw milk is sold to Class I processing plants, which package fluid milk, for the consuming public throughout the area. While the growing population of the Southeast promotes healthy consumer demand, this same region currently operates as the most significant milk deficit region of the country. Due to the imbalance between local supply and demand, the marketing dynamics require importing milk from outside the marketing areas to supplement the local supply.

For example, in the southern Missouri and Arkansas geography of the Southeast Area, DFA Southeast Area currently supplies all of the fluid milk needs for six manufacturing plants. Four of these are bottling plants and the other 2 make specialty products. Supplying these plants with their year-round milk needs requires contracting for the purchase of the milk and paying the transportation cost for great volumes of outside milk. This milk is always offered for sale on a fixed volume basis regardless of the supply needs of these plants, which ebbs and flows significantly during a year's time. In order to incentivize this distant outside milk to move to the plants in southern Missouri and Arkansas, there is a need to pay large transportation costs to draw the milk into these plants.

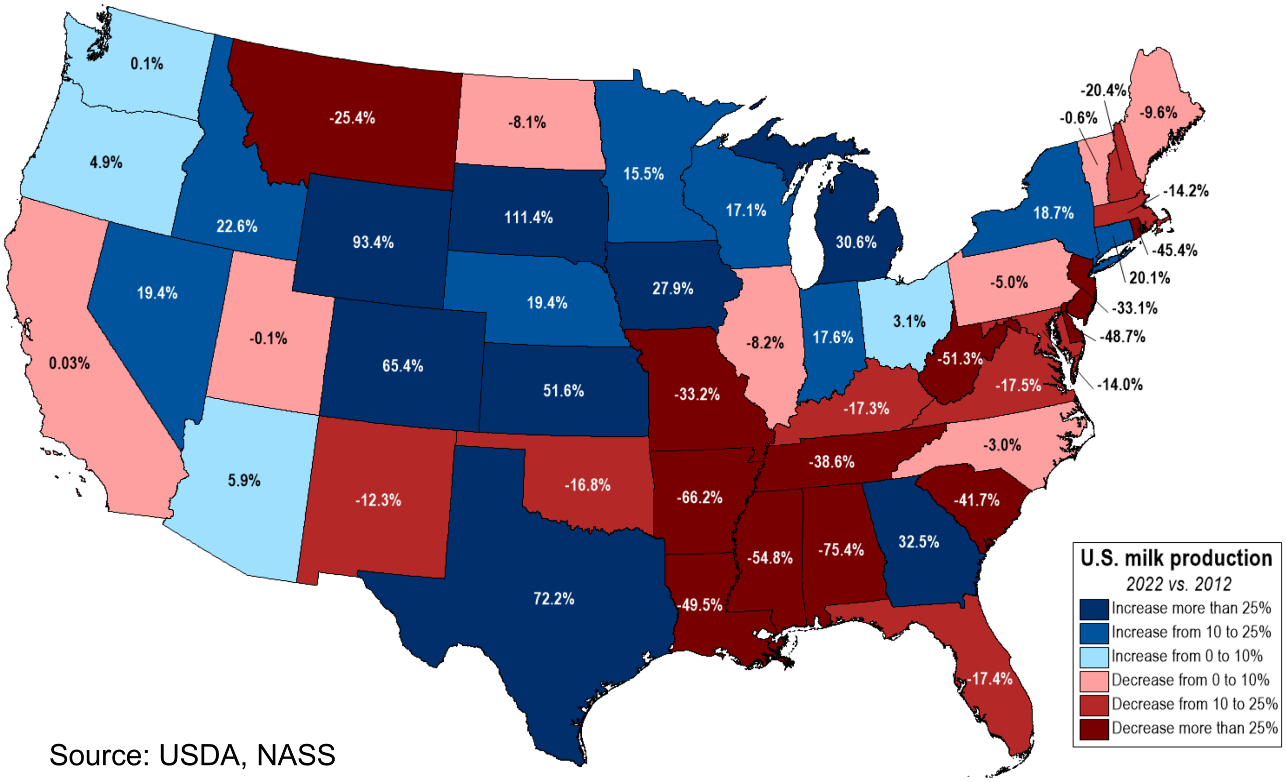
While we do have Federal Order Transportation Credit (t-credit) programs in Federal Orders 5 and 7, they only partially compensate for a small portion of the costs of hauling this out of area distant milk in. First, these programs are set up only for local distributing plants and do not apply for milk delivered to other manufacturing plants. Second, these programs only cover a small segment of the transportation costs in these orders. In fact, the Federal Order 7 program fund usually does not have enough funding to fully pay requests for most of the year.

Over the decade that I have been involved directly with southeast area milk marketing, I have seen the milk volumes in southern Missouri and Arkansas disappear rapidly. Map 1 below shows that over the period from 2012 to 2022, Arkansas milk production dropped by 66 percent and Missouri overall dropped by 33 percent. Given the decline of this nearby milk supply, the demands of the milk manufacturing plants located in southern Missouri and Arkansas must be met increasingly by milk volumes from greater distances and facing ever-increasing haul invoices. The remaining dairy farmers in the region feel the brunt of the increasing costs to service this Class 1 market.

The growing needs for milk to be brought into these areas is being met by purchasing milk supplies coming mostly from the west. This milk comes daily from western Kansas and western Texas dairy farms. Typically, loads of milk being delivered from these locations into southern Missouri and Arkansas must travel over 500-650 miles. With the implementation of the NMPF proposed Class 1 price surface, the additional dollars can be used to cover a small fraction of the ever-increasing production and transportation costs experienced by today's dairy farms.

In closing, I urge the USDA to recognize the burden currently being placed on the local dairy farm families and to implement the NMPF proposal to adjust the Class 1 price surface. Adoption will support many small business owners that produce the farm fresh milk vital to these marketing areas. Thank you for your time and letting me testify today.

Map 1



Source: USDA, NASS