

**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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Representing

Dairy Farmers of America

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My name is Brian Rexing. I am a dairy farmer from Fort Branch, Indiana, where my family and I farm 3,500 acres with a large portion of the crops being used to feed our 1,200 milk cows. I have grown up dairying with my family and have owned my current operation with my wife, Rannell, for 15 years. This has allowed me opportunities to engage in the industry I love including representing dairy farmers. I am a farmer-owner of Dairy Farmers of America (DFA) and currently serve as the Chairman of DFA's Southeast Area. I also serve as the 2nd Vice Chairman of DFA's Corporate Board.

I appear today in support of the five proposals offered by National Milk Producers Federation ("NMPF"):

- Limit the make allowance increase to NMPF's proposed levels
- Return to "the higher of" in the calculation of the Class I mover
- Eliminate 500-pound barrel cheese pricing from the calculation of the Class III protein price
- Increase and regularly update the skim component tests used to determine the Federal Order skim milk price
- Adopt National Milk Producers Federation's Class I price differential proposal

This has been a challenging year on our dairy farm. Since December 2022, my pay price, as reflected in my milk check, has decreased by almost \$6.00 per hundredweight. Unfortunately, our costs of production have not gone down to the same degree, and our dairy's profitability has been reduced substantially. Additionally, we have faced significant input cost inflation since 2020.

For instance,

- Labor costs have increased 35 to 40% in the last 18 months
- The cost of feed has nearly doubled
- Supply costs, including medicines, cleaning chemicals, and sanitizing solutions, have doubled in the past two years
- The cost of fuel has increased by 50%
- Milk hauling costs have gone up by 40%
- The cost of putting a crop in the ground has increased by 60 to 75%

The cost increases I have mentioned must be taken out of the profitability of our dairy and farming operation; we have no other way to pass along these cost increases.

In 2019, the dairy industry agreed to revise the process for determining the Class I mover. The agreement was to use the average of the advanced Class III and Class IV skim milk prices plus a fixed differential of \$0.74 per hundredweight (“average of”). This change replaced the use of the higher of the advanced Class III and Class IV skim milk prices (“higher of”) that had been in place since 2000. We were told this change was important to the Class I processing industry to allow them to use risk management strategies to hedge their Class I milk costs. We were told this change was to be revenue neutral to producer milk prices. However, in the short time since implementation, we have seen Federal Order blend prices move lower because of the Class I mover change. For only a very narrow price range will the “average of” Class I mover outperform or even be equal to the “higher of” Class I mover.

Since its implementation, NMPF estimates that dairy farmers’ milk prices have been reduced by \$950 million and my experience supports this data. This is not just a COVID-19 era anomaly. NMPF staff have determined that since implementation, for 29 of 52 months the “average of” Class I mover has returned Class I prices that are, on average, \$1.30 per hundredweight less than what could have been achieved by use of the “higher of.” By comparison, for the remaining 23 months of the 52 months since the change was made, the “average of” has returned a higher Class I price than the “higher of”, for an average improvement of just \$0.42 per hundredweight. This demonstrates the goal of revenue neutrality has not been achieved and has been to the detriment of dairy producers.

Based on proposals by NMPF, the International Dairy Foods Association and a group of milk handlers called the Milk Innovation Group, it seems there is near universal support to do something to fix the Class I mover. Also, there is near universal support by the industry for the Class I mover to revert to the “higher of” OR, if using some average of prices, to find a mechanism to be equal to the “higher of” over a period, say 24-months. Because the dairy industry supports a change that is the equivalent of reverting to the “higher of”, I urge the Secretary of Agriculture to readopt the “higher of” mover to set the Class I price. My dairy needs the Class I revenue in my blend price immediately; I cannot afford to wait 30 or more months for the added revenue.

I understand that the proposal to change the skim milk component factors is based on proven and documented tests of farm milk that show inarguable increases in milk components. In 2022, my milk averaged 4.17% butterfat, 3.11% protein, and 5.82%

other solids. Our components have steadily risen as we react to market signals. For example, the significant increases in butterfat values have encouraged us to make management decisions to increase the butterfat content of my milk, which allows us to capture additional revenue in my milk check. We plan to continue to utilize new ideas and make improvements on our dairy to increase the milk components of our milk. Being associated with Federal Order #5, one of the four skim-butterfat pricing orders, makes the adoption of the NMPF proposal even more important.

We participate in risk management strategies to lock-in costs, pay prices, or both. It is important to the success of my risk management strategy that the Federal Order milk pricing formulas are not changed without a lengthy notification period. Ideally, there would be a 12-month delay in implementation after the revised skim milk component factors in the class pricing formulas have been adopted. That said, I recognize the broader needs of the dairy industry and support an earlier implementation for some of the other changes found in NMPF's proposals, i.e., increasing make allowances, reinstating the "higher of" in the Class I mover formula, and eliminating 500-pound barrel cheese pricing from the Class III protein price formula.

I close by reiterating my support for NMPF's five proposals:

1. Limit the make allowance increase to their proposed levels
2. Return to "the higher of" in the calculation of the Class I mover
3. Eliminate the barrel cheese price from the calculation of the Class III protein price
4. Increase and regularly update the skim component tests used to determine the Federal Order skim milk price
5. Adopt National Milk Producers Federation's Class I price differential proposal

Others representing DFA will be speaking more directly on these issues.

Thank you for allowing me to testify today on these issues that are very important to my family and the future success of our dairy business.