

**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 Karl Wedemeyer. I am a dairy farmer from LaRue, Ohio, where I farm 85 acres and milk 200 cows in a partnership with my brother, Derek, and my parents, Lee and Colleen. I have been a dairy farmer for 14 years, but really, I feel like I have been a dairy farmer my whole life. I received an associate degree in Dairy Science and a bachelor's degree in Animal Science from The Ohio State University. I also recently completed a master's degree in Business Administration from Ohio University. I am a farmer-owner of Dairy Farmers of America (DFA).

I have had the good fortune to be able to hold various leadership positions throughout the agricultural and dairy industries. I have served on Mideast Area Council for DFA and currently serve as an area resolutions member and corporate resolutions member. I also currently serve on the board of the Ohio Dairy Producers Association.

I have been managing our dairy since I completed my undergraduate degree in 2009. Part of my management responsibilities for the farm have been developing and implementing the farm's risk management strategy. This includes not only forward contracting our feed inputs such as corn, soybean meal, and soy hulls, but also our milk price. I have utilized forward contracting through DFA's Risk Management Program to help protect our milk price. I have utilized different financial products such as Class III, Class IV, Producer Price Differential (PPD), and Target Blend contracts. By using various strategies to hedge our price risks, I have become familiar with the Federal Milk Marketing Order system and how it functions. This understanding has helped me to keep my farm viable by ensuring we do not receive the market lows for our milk.

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

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

This has been a challenging year on our dairy farm. Since December 2022, our pay price, as reflected in the milk check, has decreased by \$7.00 per hundredweight. Our costs of production have not gone down to the same degree, and our dairy's profitability has been impacted substantially. We have faced significant input cost inflation since 2020. For instance, feed costs have almost doubled over the last three years. We have also seen our cost of hauling milk increase by more than 100 percent. Specifically, our hauling costs have risen from \$0.85 per hundredweight to \$2.00 per hundredweight due to an increase in fuel costs, increase in the cost of labor for truck drivers, and increases in the cost of equipment needed to haul milk.

In 2019, the dairy industry agreed to revise the process for calculating 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 Milk Marketing 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 estimate. This is not just a COVID-19 era anomaly. NMPF staff has 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.

This experiment in Class I price formula changes has been a failure, and it is time to fix the problem. 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 revert to the "higher of" OR, if using some average of prices, find a mechanism to be equal to the "higher of" over a period of time, 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 for months or even

years for the added revenue. This change affects 100% of pooled producer milk, while I suspect that all pool processors are not covering 100% of their products with risk management tools impacted by this change.

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 5.04% butterfat, 3.80% protein, and 5.67% other solids. These have increased by 2.5% since 2018. A goal for our farm is to increase the component tests of our milk every year. We strive to increase the production capability of our cows through better management. Using different feeding strategies and feed additives, we have seen a consistent increase year-over-year in the components of our herd. Our farm is located in Federal Milk Marketing Order 33, which uses multiple component pricing. This pricing structure encourages us to produce the highest component milk possible, which translates into a higher price per hundredweight for our milk. With financial incentives being clear for our farm, we intend to continue to increase the component levels of our milk.

As I had mentioned previously, I have been managing our farm's risk management strategy for the last 14 years. Part of this strategy is to have forward contracts for milk at various price points and for various lengths of time out into the future to hedge price risk. There will be times when I have milk forward contracted for up to a year in advance. This strategy could be greatly impacted by the timing of a USDA decision to implement new skim milk component factors. I could have milk contracted based on the old formulas and skim milk component factors if there was a not a 12-month implementation period. This would result in a loss of income for our farm because I would be locking in a lower milk price that would keep me from receiving the benefits of the increased skim milk component factors. We should not be penalized for being proactive with our use of forward contracting.

It is important to the success of my risk management strategy that the Federal Milk Marketing 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 Dairy Farmers of America will be speaking more directly on these issues.

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