

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

DOCKET NO.: 23-J-0067; AMS-DA-23-0031

Before the Honorable Channing D. Strother, Judge

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Carmel, Indiana
September 15, 2023

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Reported by:

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| 21 | (Please note: Appearances for all parties are subject to |
| 22 | change daily, and may not be reported or listed on |
| 23 | subsequent days' transcripts.) |
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| 1 | FRIDAY, SEPTEMBER 15, 2023 MORNING SESSION |
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| 2 | THE COURT: Back on the record. We talked about a |
| 3 | lineup at the end of yesterday. Are we ready to go? |
| 4 | MS. TAYLOR: Yes, your Honor. I think we do have |
| 5 | two dairy farmers we would like to being with. |
| 6 | THE COURT: Good morning. |
| 7 | Please raise your right hand. |
| 8 | FRANK DOLL, |
| 9 | Being first duly sworn, was examined and |
| 10 | testified as follows: |
| 11 | THE COURT: Your witness, Ms. Hancock. |
| 12 | MS. HANCOCK: Your Honor, at this time we're |
| 13 | calling Frank Doll as the next witness. |
| 14 | DIRECT EXAMINATION |
| 15 | BY MS. HANCOCK: |
| 16 | Q. Mr. Doll, would you mind stating and spelling your |
| 17 | name for the record? |
| 18 | A. My name is Frank Doll, F-R-A-N-K, D-O-L-L. |
| 19 | Q. And could you provide your business address? |
| 20 | A. My address is 113 Metcalf Road, Pocahontas, |
| 21 | Illinois, 62275. |
| 22 | Q. Did you provide testimony that you are prepared to |
| 23 | give today that's been identified as Exhibit NMPF-85? |
| 24 | A. Yes, I did. |
| 25 | MS. HANCOCK: Your Honor, if we could assign an |
| 26 | exhibit number to this? |
| 27 | THE COURT: Yes. This exhibit is marked |
| 28 | Exhibit 200 for identification. |



| 1 | (Thereafter, Exhibit Number 200 was marked |
|----|--|
| 2 | for identification.) |
| 3 | MS. HANCOCK: You get the lucky number 200. |
| 4 | That's monumental. |
| 5 | THE WITNESS: For that, I thank you all. |
| 6 | BY MS. HANCOCK: |
| 7 | Q. Mr. Doll, if you wouldn't providing us your |
| 8 | testimony. And then we have been just reminding each |
| 9 | witness that as you are reading testimony, to try and read |
| 10 | slow enough that our court reporter can capture what you |
| 11 | are saying. |
| 12 | A. All right. Thank you. |
| 13 | Q. Thank you. |
| 14 | A. Good morning, everybody. My name is Frank Doll. |
| 15 | This testimony is presented in support of Proposal 19, |
| 16 | updating the Class I differentials throughout the United |
| 17 | States as proposed by the National Milk Federation, herein |
| 18 | referred to as NMPF. |
| 19 | My family operates Doll Dairy, Inc. It's located |
| 20 | in Bond County, Illinois, outside of Breese, Illinois. We |
| 21 | milk approximately 225 cows, along with raising 125 |
| 22 | replacement heifers. We raise hay, wheat, soybeans, corn |
| 23 | for silage, and corn for grain. We own 650 acres. We |
| 24 | rent an additional 150 acres. We raise all of our dairy |
| 25 | replacement animals. |



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200 Angus/Holstein cross-calves. We have entered into the

beef business a little bit to control population of the

And we also -- at Doll Dairy, Inc., we sell about

Holstein cows, so it's a been a nice side job. We also sell alfalfa and straw from our farming operation. This helps maintain a diversified operation that provides income for our farming operation.

Dairy farming is in our family heritage, as well as its future, hopefully. I am a third generation dairy farmer along in the diversified farming operation. My dad and grandfather also have similar operations with hogs, chickens, and an orchard as part of the business model.

My grandfather started in 1938, which is a long time ago and a long history. He had 160 acres, and he milked all the cows by hand, which I'm glad I don't have to do. This has gradually grew over the decades to our diversified operation we have today.

My father operated it back in the 1960s with 100 cows, maintained that for a couple decades. In the last decade, we have doubled to our present size of 225 milking cows.

I operate the dairy farm since about 1995, along with my -- along with our diversified operation, to support the rest of the family. I'm hopeful the next couple of years that my son, Blake -- who just called me twice this morning already -- will take over the operation and handle all the day-to-day problems, so we'll test him on that.

I also serve on the Board of Directors for Prairie

Farms. I am currently the president of that board. I

also serve on the National Milk Board of Directors, and I



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am on the executive committee there. I serve on the St. Louis District Dairy Council Board, where I'm president, along with the Midwest Dairy Board. I'm a member of the Illinois Milk Promotion Board where I serve as president. I'm on the Bond County Farm Bureau Board, which I'm the vice president. And the Gateway Holstein Club. And I also am the president of our local cemetery board, which is three people, one of them my dad, so those are interesting meetings to say the least.

I also interact with many dairy farmers. We're a small dairy pocket that's a very close-knit group of farmers, so we interact quite frequently, and this topic today is something that comes up a lot about milk price. In fact, it comes up almost every day.

I am a member of Prairie Farms Dairy, Inc., which has approximately 668 dairy farms across the states of Illinois, Indiana, Iowa, Kentucky, Michigan, Ohio, Minnesota, Missouri, and Wisconsin.

Prairie Farms has plants in the Southeast markets in Indiana, Kentucky, Louisiana, and Mississippi. With the continued reduction in milk production in the Southeast part of the U.S., I began shipping my milk to the Southeastern market on a year-round basis, since 2017, and continue this today.

My hauler ships my milk to Holland, Indiana, or Somerset, Kentucky, the plants that Prairie Farms owns. We continue to see the need for year-round milk supply grow for our Southeast plants, as many of my neighbors



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have also shipped their milk to those plants.

My milk price increased with shipping to the Southeast part of the U.S. with the increase of the price surface. As my milk travels farther South and Southeast, my price increase due to this pricing surface being higher -- larger, sorry -- to help defray some of the milk cost associated with additional miles.

We have seen substantial cost increase on the farm in many areas the past few years, especially in the last -- in the last couple decades. I have summarized many of these items that my farm supply company sells me as utilization in my milking parlor -- Deal Them Out is who they are. And the cost associated running and maintaining my parlor as, according to Table 1 below, our costs have gone up annually about 7.7% for the various supplies and labor -- these are examples of various things, so I don't need to read all of them.

But as you can see, some of them, Della Super is soaked, so in 2019 it cost \$6300, today it's \$8,800. So, you know, 39% change, 7.7.

One of the big ones, it's a very small cost, but milking gloves -- I have a lot of girls that work for me, and they want to wear gloves -- and those things have went up from \$10 a box to \$19, and that's just another cost. Those have went up 90% and change, and that's -- thanks to the pandemic, gloves were in short supply for everything, so --

And labor rates is -- is almost not shocking to me



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anymore, but, you know, I used to pay close to \$12 -- or \$8 for a hired person, a high school kid, and now I have to start them at about \$15 an hour. And anybody with a little bit of experience, I start them more in the \$18 and work up to 22, maybe \$25 an hour for a part-time job, which is a pretty good job.

But we're not very close to a community, so I always figure I have to pay more for gas to get people to come out to work. So it's just more cost of running the dairy farm and just attracting people to come out and work in a dirty, hot environment, or really cold. You know, we have got the very extremes of the world out there on the dairy farm.

So I'm fortunate that my wife's a teacher and she recruits a lot of broke high school kids that need to buy cars or buy trucks that can't afford them, so they come to work for me because they don't want to work at McDonald's. So that's one of the examples of running a dairy farm that works good to recruit people to come to work on my farm.

On our dairy farms, we continue to see costs increase in many areas. The cost of shipping my milk to market to increase as my hauler continues to remain competitive to hire drivers, along with the cost of buying and maintaining equipment. In the last six years, I have seen the cost to ship milk to market increase dramatically. Our cost to ship milk has increased approximately 32.8% in the last six years.

The price surface has not been updated in over



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20 years, so it's time to make changes so we can help offset the additional costs we are experiencing on the farm other than the Southeast. But that was 15 years ago. There have -- there have been many changes in the Southeast and transportation credits for a farm like myself that supplies the market year-round. We do not qualify this credit to help offset the freight costs.

As board president of Prairie Farms, I know our cooperative ships milk down to the St. Louis market from northern markets, since my milk is going to the Southeast all the time. Much of that milk is traveling farther than my milk -- than my milk does, and receives less in an incentive from the price surface. My milk from Central Illinois to Somerset, Kentucky, is almost a hundred miles less than milk from the northern markets down to the St. Louis market, and my milk receives 65% higher value. This is one example of why the entire price surface needs to be reviewed.

I would like to express my appreciation to the Secretary of Agriculture and the Dairy Division for holding this hearing. I strongly recommend the Secretary to adopt National Milk's Proposal 19, return to the higher-of for calculation of the Class I skim mover. I further recommend that the Secretary adopt all National Milk's proposals for the FMMO modernization. This will promote orderly marketing of milk and ensure a more stable price for dairy producers to manage their businesses today and into the future. Thank you.



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| 1 | Q. Thank you, Mr. Doll. |
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| 2 | MS. HANCOCK: Your Honor, we would make him |
| 3 | available for cross-examination at this time. |
| 4 | THE COURT: Any cross for this witness? |
| 5 | CROSS-EXAMINATION |
| 6 | BY MR. MUNCH: |
| 7 | Q. Good morning. Danny Munch, the American Farm |
| 8 | Bureau Federation. |
| 9 | Good morning, Frank. |
| 10 | A. Good morning. |
| 11 | Q. You attended our Federal Milk Marketing Order |
| 12 | forum last year, correct? |
| 13 | A. Correct. |
| 14 | Q. Could you characterize that event in any way, what |
| 15 | you found useful? |
| 16 | A. I found it very interesting. It was held in |
| 17 | Kansas City. A large gathering of dairy farmers from |
| 18 | across the country working for the same common goal and |
| 19 | some I think in the dairy industry we're a little |
| 20 | fractured because we have the cheese makers, the fluid |
| 21 | guys, and we all bring to the same table that day working |
| 22 | for the common good of increasing costs increasing the |
| 23 | price of milk for dairy farmers. |
| 24 | Q. And would you say some of the proposals that you |

A. Yes.

out of that conference?

Q. And you were a member of our dairy working group

are supporting today are ultimately agreements that came $% \left(\left(1\right) \right) =\left(1\right) \left(\left(1\right) \right) \left(1\right) \left(1\right$



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1 two years ago, correct? 2. Α. Correct. And would you say that the work that you all put 3 4 in together also represented consensus among different dairy farmers from across the country? 5 Yes, I think it helped lay the ground work for 6 7 where we're getting today. 8 And do you have any comments on how depooling and Ο. 9 negative PPDs impacted you or your neighbors? 10 Depooling was a definite headache for a lot of Α. farmers, because we didn't understand it, and we had to do 11 12 a lot of education on depooling. And it showed up on your 13 milk check and -- and guys stayed in Order 32 were 14 screaming about it and we had to -- another dairy farmer 15 here, he's going to talk about it also, but it was an 16 education for me and a lot of other farmers how we were 17 losing that much money on our milk check. 18 And would you characterize depooling as sort of Ο. 19 representative of a disorderly marketing condition? 2.0 Α. Yes. 2.1 MR. MUNCH: That's all I have. Thank you so much, 22 Frank, for your participation at Farm Bureau. 23 THE WITNESS: Thank you. 24 THE COURT: Further cross-examination other than 25 AMS? 26 Seeing none, AMS. 27 CROSS-EXAMINATION



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BY MS. TAYLOR:

Q. Good morning.

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- A. Good morning.
- Q. Thank you for coming down this morning to testify today.
 - A. You're welcome.
 - Q. Just a few questions for you. I'd like to make sure the record's really clear on some of the statements that you put in there.

But first, you describe your very diversified operation. And would your farm meet the business -- excuse me -- meet the definition of a small business, which for dairy farmers -- or for farmers is \$3.75 million in gross revenue annually on a whole farm basis?

- 14 A. Yes. I'm under that, yes.
- Q. And you talked about you ship continuously into the Southeast market; is that right?
- 17 A. Correct.
 - Q. About how far does your milk go?
 - A. It's about 100 miles, I believe, to --
- 20 Q. To your plant?
- A. Yeah, first plant. The second one is probably,
 I'm going to ballpark, say 150, something like that, 175
 maybe.
 - O. Okay. Thank you.

And on the second page you talked about the price surface hadn't been updated in 20 years, but the Southeast was in 15 years ago. And I just want to make sure the record's clear. That's when we increased the



differentials in just the three Southeastern markets; is that correct, in 2008?

- A. I think so, yes.
- Q. Yeah. And then as you describe in that same paragraph, there are transportation credits to bring supplemental milk down in the Southeast, but your farm doesn't qualify for those; is that correct?
 - A. Yes.

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- Q. So you have to cover the all of the haul to supply that more fluid market; is that right?
 - A. Yes.
- Q. And then at the -- in your last page, your last sentence, you said adopting Proposal 19, and then this proposal in the -- excuse me -- the Class I skim -- the Class I higher-of proposal and your discussion of the Class I differential proposals will promote orderly marketing of milk.

And I just wonder, as a farmer, if you could expand on what you believe is considered orderly marketing. You know, there's no definition for orderly marketing. There's no definition of disorderly marketing really. So from your perspective, what would you see as orderly?

A. Well, I -- I just think the -- a more fair price for the milk. The last several years of the milk price swings that are so -- the lows stay so low so long, and the highs don't stay very high very long, so we're struggling to keep people in the market.



I think it's just, as the population shifts, as the milk production shifts, I think the whole Federal Order needs to be adjusted to realize that more people seem to be moving south, there's no milk in the south, and milk is moving north, and back maybe a little bit to the center of the country. And I think we just need to adjust all the transportation to move it around, and there's just things are constant change. And I -- and to keep dairy farmers in business I think is the ultimate goal, is just to pay farmers to keep them in business, whether they milk 20 cows or 2,000 cows or whatever.

Q. Okay. Thank you.

There are some proposals in front of the Department from National Milk that would delay implementation of certain pieces. And the reason they explain for doing that is that farmers use a lot of risk management these days, and any sudden change in the formulas will impact their risk management positions that they have taken.

So do you use any risk management tools?

- A. I do use DMC.
- Q. DMC? Okay.

MS. TAYLOR: I think that's it from AMS. Thank you thank you so much.

THE WITNESS: Thank you.

THE COURT: Anyone else? Redirect?

MS. HANCOCK: Your Honor, we have nothing further. At this time, we'd move to admit Exhibit 200.



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| 1 | | THE COURT: Any objection? |
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| 2 | | Exhibit 200 is admitted into the record of this |
| 3 | proceed | ing. |
| 4 | | (Thereafter, Exhibit Number 200 was received |
| 5 | | <pre>into evidence.)</pre> |
| 6 | | THE COURT: Thank you, Mr. Doll. We appreciate |
| 7 | you com: | ing out. |
| 8 | | MS. HANCOCK: We have one more producer, Bryan |
| 9 | Henrich | S. |
| 10 | | BRYAN HENRICHS, |
| 11 | | Being first duly sworn, was examined and |
| 12 | | testified as follows: |
| 13 | | THE COURT: Your witness. |
| 14 | | DIRECT EXAMINATION |
| 15 | BY MS. I | HANCOCK: |
| 16 | Q. | Good morning, Mr. Henrichs. Would you mind |
| 17 | stating | and spelling your name for the record? |
| 18 | Α. | My name is Bryan Henrichs, B-R-Y-A-N, |
| 19 | H-E-N-R- | -I-C-H-S. |
| 20 | Q. | And what is your business address? |
| 21 | Α. | My address is 19207 Ellwood Road, Breese, |
| 22 | Illinois | S. |
| 23 | Q. | And your zip code? |
| 24 | Α. | 62230. |
| 25 | Q. | Thank you. Did you prepare Exhibit NMPF-79 in |
| 26 | support | of your testimony today? |
| 27 | Α. | Yes. |
| 28 | | MS. HANCOCK: And, your Honor, I believe we're at |



| 1 | Exhibit 201. |
|----|--|
| 2 | THE COURT: Yes, we are. That Exhibit NMPF-79 is |
| 3 | so marked for identification. |
| 4 | (Thereafter, Exhibit Number 201 was marked |
| 5 | for identification.) |
| 6 | MS. HANCOCK: Thank you. |
| 7 | BY MS. HANCOCK: |
| 8 | Q. Mr. Henrichs, would you provide your testimony, |
| 9 | please? |
| 10 | A. Okay. My testimony, Henrichs Farms, Ltd., |
| 11 | supports National Milk Federation's proposal for restoring |
| 12 | the higher-of for establishing Class I mover from original |
| 13 | Federal Order Reform. |
| 14 | My name is Bryan Henrichs. My testimony is |
| 15 | presented in support of Proposal 13, restore the original |
| 16 | Federal Order Reform Class I skim mover at proposed as |
| 17 | proposed by National Milk. |
| 18 | My family operates Henrichs Farms located in |
| 19 | Clinton County, outside of Breese, Illinois, not too far |
| 20 | from Frank. We milk approximately 310 cows, along with |
| 21 | raising 225 replacement animals. I also, myself, operate |
| 22 | a custom harvesting business besides the dairy, and we |
| 23 | harvest silage for about 75 farms in the Southern |
| 24 | Illinois, Missouri, area. Mostly dairies, about 50 or |
| 25 | 70% dairy farms, the rest are beef. These activities |
| 26 | utilize our equipment and generate extra income for myself |
| 27 | to not be only supported by the dairy farm. |



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Dairy farming is my family's heritage as well as

future. I'm a third generation dairy farmer, along with my brother Rodney, who is my partner in the dairy operation. My two nephews and a niece are also employed by the dairy along with helping with some of the custom harvesting that I do.

My family started the dairy back in 1938, and we have gradually grown from 4 million pounds a year annually to 7 million pounds over the last decade. I have worked on the dairy farm along with the custom harvesting operation to support my family, which includes five daughters, so you understand why I try to stay so busy and not in the house.

I serve on the Board of Directors of Prairie Farms Dairy, and I am the chair of the strategic planning committee. I also serve on the St. Louis Dairy Council Board and Midwest Dairy, along with the American Farm Bureau Dairy working group, through these -- and through this, my involvement with these organizations, I interact with many dairy farmers. A common topic of discussion is milk pricing and a desire to return to the higher of pricing of Class I skim.

We have seen many challenges with milk pricing to producer communities through price volatility and disparity of milk pay prices amongst dairy producers. From what I understand, the Federal Milk Marketing Order is to maintain orderly marketing in the regional area. One way that helps with orderly marketing is for the milk to be priced similar for all dairy producers in that



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Some dairy producers have the ability to depool their milk, which has created disparity amongst dairy producers and disorderly marketing. Our milk from our dairy farm ships to Prairie Farms plants around the St. Louis market, which are all Order 32 plants. All of these are Class I plants that don't allow us to depool my milk. One of the reasons before for setting the Class I price on the higher-of was to ensure the Class I was the highest and incentivize producers to ensure Class I market had a secure supply. With the producers that supply not able to depool their milk was the incentive and maintain orderly marketing.

With some farms' ability to depool, this has created disorderly marketing as there isn't the incentives to serve the Class I market as they are getting the higher-of value for their milk. I am unable to have my cooperative depool my milk due to milk serving the Class I market.

I have heard from some in the industry that negative producer price differentials that took over \$750 million from the dairy producers' checks, according to National Milk Producer Federation analysts, were caused by the USDA Food Box Program. I would disagree, as the negative PPDs began not too long after the industry moved to the average-of in May of 2019. As you can see in the table below, negative PPDs from Order 32 began in September of 2019, not long after the average-of started.



The negative PPDs have taken money from the producers' checks, and while we are appreciative for the PMVAP payments from the USDA in 2022 for the partial compensation of the \$750 million lost by dairy producers during the USDA Food Box Program, I'm appreciative for the PMVAP payments, but I know some dairy producers that needed the money at the time, not 12 to 18 months later. I know of some that are no longer in business as they -- when they received the payments.

We are appreciative of the support, but the higher-of will ensure that dairy producers are compensated at the time of the sale, instead of later by some other form or support. We are appreciative of the support for our operation from PMVAP, but I worry that the USDA will always have the funds to provide such support.

We have used risk management tools in the past, such as forward contracting and DRP, to help manage the price volatility of dairy markets. With the average-of and the higher-of negative PPDs, which act as negative basis, we are -- and if you are familiar with corn, the corn market, which indicates -- sorry -- we are familiar with the negative basis with corn as that indicates what the market value the commodity at the time. At least with corn, I can call the elevator and find out what the basis is and decide if I want to ship to market. We produce milk that is a perishable product, and with a negative PPD, we do not know until two weeks after we are done shipping for the entire month whether or not this is a



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negative basis.

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I was shown a check from a neighbor that forward contracted in July of 2020 when prices dropped dramatically. He shared with me his check as he locked in -- he was locked in at \$18 in a Class III futures contract. He lost on the futures contract as he would expect when the market rises, but due to the negative basis, or negative PPD, he ended up with a final net check of around \$9 a hundredweight.

I continue to evaluate the amount of negative PPDs since going to the average-of, and I am reluctant to use forward contracting or DRP as part of my farm's risk management program.

I would like to express my appreciation to the Secretary of Agriculture and the Dairy Division for holding this hearing. I strongly recommend the Secretary to adopt National Milk Producers Federation's Proposal 13, return to the higher-of for calculation of the skim I -- or Class I skim mover. I further strongly recommend the Secretary adopt all National Milk Producer Federation's proposals for the FMMO modernization. This will promote orderly marketing of milk and ensure more stable price for dairy producers to better manage their business. Thank you.

MS. HANCOCK: Your Honor, we would make Mr. Henrichs available for cross-examination at this time.

THE COURT: Yes, Mr. Munch.

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1 CROSS-EXAMINATION 2. BY MR. MUNCH: Good morning, Bryan. 3 Ο. Good morning. 4 Α. Good to see you. 5 Ο. 6 Bryan, you were a part of our 2022 dairy working 7 group, correct? 8 Α. Yes. 9 Do you recall the efforts of the dairy working Ο. 10 group aimed at reducing incentives to depool and reducing 11 the prevalence of negative producer price differentials? 12 Yes, we were -- that was one of our main 13 discussions was trying to figure out options to go -- you 14 know, to alleviate the large negative PPDs that we were 15 seeing in the market. 16 Ο. And you would say that across the group, which 17 represents different parts of the country and represents 18 folks who sell to both cooperatives and independent 19 handlers, that that was one of their biggest objectives 2.0 and considered those issues a disorderly marketing 2.1 condition? 2.2 Α. Yes. 23 As part of the group, you recommended AFBF to hold 2.4 its Federal Milk Marketing Order forum to help bring 25 consensus across the industry, correct? 26 Α. Yes. 27 Would you say consensus was made on a number of



issues?

- A. I believe that the Kansas City meeting, yes, there was quite a few -- quite a bit of consensus across the room of going back to the higher-of and different options like that.
 - Q. Do you recall any opposition to switching back to the higher-of?
 - A. No.
 - Q. Do you recall any opposition to increasing Class I differentials?
- 10 | A. No.

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- 11 Q. Do you recall any opposition to a mandatory survey 12 of handler plant costs and yields?
- 13 A. No.
- Q. As part of the dairy working group, you were part of the unanimous approval of AFBF's Federal Order
- Proposals that include many of NMPF's proposals, as well as AFBF Proposals 4, 5, 18 and 21, correct?
- 18 A. Yes.
- 19 MR. MUNCH: Thank you. That's all I have.
- 20 THE COURT: Yes, sir.
- 21 CROSS-EXAMINATION
- 22 BY MR. ROSENBAUM:
- Q. Good morning. Steve Rosenbaum for the International Dairy Foods Association.
- 25 A. Good morning.
- Q. And I just have some questions about your Table 1,
- 27 which recites what the PPDs were in the period -- well, in
- 28 | 2019, positive in some months, negative in the latter



months, correct?

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- A. Yes.
- Q. I mean, and you -- you ascribe that or at least link that to the industry's move to the average-of as the Class I -- average-of plus \$0.74 as the Class I mover as opposed to the higher-of, right?
 - A. Yes.
- Q. And have you actually, you know, done sort of like a month-to-month analysis during this time period to see what the Class I mover would have been under the higher-of approach as opposed to what it was based upon the average plus \$0.74?
- A. Are you asking for since that time up to the current dates?
- Q. Well, during this particular time period, which is 2019.
 - A. Yes. We are always watching it.
- Q. I mean, just as an example, just to make sure we're looking at it the same way, you know, in May 2019, based upon the information I have before me, the Class III price was -- well, the higher-of Class III or Class IV in -- well, let me start with a new month.
- In May 2019, the higher of Class III or Class IV was \$7.14, the simple average was \$7.08, so the higher-of, the mover would have been \$7.14, but because it was the simple average plus \$0.74, it actually was \$7.08 plus \$0.74, which would be \$7.82, you know, higher.
 - Did you -- so -- if you just -- I think that's the



right way to do the math. Is that -- do you agree with that?

A. Yes.

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- Q. I mean, I just -- and have you done that?
- A. Yes, we have.
- Q. No one questions, obviously, that come 2020 and the -- and the pandemic, Class III and IV started diverging substantially, and you ended up with less. No one is questioning that.

But the -- but the -- do you agree with me that until that happened, you weren't experiencing this kind of anomalous result, were you?

- A. Not at that point, but once -- when you start receiving the negative PPDs, they got extremely large, as you can see, that didn't cover the -- you know, it was way more of a negative that year than what the positives were prior to that.
- Q. Okay. But I mean -- well, okay. So take -- take October 2019, if -- assuming my math is right, I think the higher-of was \$9.26 and the average was \$8.55, so when you added \$0.74 to the \$8.55, you were still higher, not much, but a little higher than the -- than the higher-of.

Does that seem right to you?

- A. Possibly.
- MR. ROSENBAUM: Okay. Okay. That's all I have.
 Thanks.
 - CROSS-EXAMINATION

28 BY MR. MILTNER:



Q. Good morning, Mr. Henrichs. My name is Ryan Miltner. I represent Select Milk Producers.

And Mr. Munch asked you a couple of questions about some activities with Farm Bureau. You mentioned a couple of proposals that Farm Bureau has in this hearing, and I wanted to ask you a couple of questions about one of them.

So from your statement, I'm gathering that depooling might be one of the most important issues to you as far as your milk check.

A. Yes.

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Q. One of the proposals that Farm Bureau has offered, and we haven't heard testimony on it yet, it comes later in the hearing, would eliminate advanced pricing of Class I and Class II skim milk.

Are you a little bit familiar with that proposal?

- A. Yes.
- Q. So we haven't heard Farm Bureau's testimony, but when they -- when they submitted it to USDA, they said that advanced pricing creates an opportunity to depool milk from the order to benefit from the non-pooled value of the recently elevated prices, without sharing that value with the pool, and further depresses the PPD. And they suggest that advanced price -- getting rid of advanced pricing would reduce the likelihood of depooling.

Is that something that you would support the adoption of a proposal like that?

A. Yes.



1 MR. MILTNER: Thank you. That's all I had. 2. THE COURT: Further questions? Anyone other than AMS? 3 4 Seeing none, Ms. Taylor. CROSS-EXAMINATION 5 BY MS. TAYLOR: 6 7 Ο. Good morning. Oh, I still have some questions for Nothing bad. That sounds horrible. I didn't mean 8 9 it like that. Good morning. 10 Good morning. Α. 11 Ο. Thank you for coming to testify this morning. 12 Α. You're welcome. 13 I'm a little slow to turn the mic on, that's my 0. 14 problem. 15 Did you hear my question to Mr. Doll about whether 16 his farm met the small business definition? 17 Α. Yes, I did. 18 Would your farm meet that definition? Ο. 19 Yes, it does. Α. 2.0 Ο. Yes. And you say your milk goes to a Class I 2.1 plant? 22 Α. Yes. 23 And how far does your milk go? 0. 24 About 30 miles most of the time. Α. 25 And you talk about, on the back page of your Ο. 26 statement, risk management. And what I gather from that 27 is you used to use forward contracting in DRP, but perhaps 28 you are not doing that right now.



- A. So I have not done forward contracting. That was a neighbor --
 - Q. Okay.

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- A. -- who had done it through his co-op.
- Q. Do you -- do you use any risk management?
- A. I used DRP in the past, and DMC.
- Q. Okay. And when you did use DRP, how far out did you look to lock in the position?
 - A. Usually one year.
- Q. One year? And so it's this negative basis you are talking about that seems to be a primary concern of why you might not use risk management tools, currently?
- A. Yes. When I have had other -- being a custom operator and helping put silage up for a lot of dairy farmers, a lot of questions on dairy pricing get sent to me. And we have had producers that bought, especially in 2020, DRP contracts, and in the months of April, May, and June of 2020, they were set to receive a pretty large sum.

And because -- but because of depooling, we had, I believe, around at \$20 to \$21 Class III price in June of 2020, but the farmers in our area, because of depooling, were unable to receive that in their milk checks, but they were also not able to receive the DRP payments that were set to come to them. They were kicked out because the price on the futures was higher than what their contract that they purchased. If they bought \$18 for an average, well, that \$20 kicked them into -- above that average, or close to it, that they didn't get a payment.



Q. Okay.

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- A. If that makes sense. So the two months prior, they were set to large -- you know, they were going to receive a large payment, but the June prices, even though on the Board of Trade they looked good, they were not what we received on our dairy farms.
 - Q. Because that Class III milk wasn't pooled, so --
- A. Yes, it was -- I believe in Order 32 only 6%, around 6% of Class III milk was pooled in Order 32 that month, so our price was, I believe, around \$12 or \$13 for a hundredweight for our dairy farms. But like I said, they -- their contract, I don't know exactly what numbers that -- their particular dairy producer hedged in their DRP, but they were set to receive a large payment, but they did not because of that \$20 on the Board of Trade price.
 - O. Okay. Thank you.

My last question was similar to what I asked Mr. Doll, because your statement also talks about changes that would promote the orderly marketing of milk.

So from your perspective as a dairy farmer and a member of Prairie Farms, what do you see as -- define as orderly marketing?

A. So going back to the month of June 2020, and July, we saw large Class III prices, whereas in the average-of, the Class I price and Class IV were very much lower. And you had producers in Wisconsin in Order 30 getting \$4 a hundredweight more per the FMMO website.



Q. On the uniform price?

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A. On the uniform price. Their prices were \$4 a hundredweight. We have producers that are within miles of Order 30 and 32, shipping in 32, who were \$4 difference, and their plant milk was going, you know, not that far -- their milk was being produced not far from each other. That's disorderly marketing, in my opinion.

And when you have guys who are not wanting to go to a Class I plant because the Class III price is higher, you know, that's what I consider disorderly marketing where you -- you would have people jumping in and out of which product they want to sell their milk to that day because of the pricing disparity amongst the classes.

Part of the -- to me, the class pricing and the FMMOs are to stabilize pricing to producers in each order, to be pretty similar.

- Q. So you -- you would -- if I can extrapolate from that. You see class prices being in what's called typical historical alignment as orderly?
 - A. Yes.
- Q. Because then their incentive is there to service the Class I plants?
- A. Service the Class I first, and then from there -make sure that those are full for the fluid industry, and
 then because they are not able to store product, like the
 you know, powder and cheese plants.
- Q. And then I think the last part I heard was farmers, neighboring farmers, receiving significantly



| 1 | different prices for milk when they are both participating |
|----|--|
| 2 | in the Federal Order would be disorderly as well. |
| 3 | A. Yes. |
| 4 | MS. TAYLOR: Okay. I think that's it. Thank you |
| 5 | so much. |
| 6 | THE WITNESS: Thanks. |
| 7 | THE COURT: Anyone else? |
| 8 | Okay. Redirect. |
| 9 | MS. HANCOCK: Thank you, Mr. Henrichs. |
| 10 | Your Honor, at this time we would move to admit |
| 11 | Exhibit 201. |
| 12 | THE COURT: Any objections? |
| 13 | Exhibit 201 is admitted into the record. |
| 14 | (Thereafter, Exhibit Number 201 was received |
| 15 | into evidence.) |
| 16 | MS. HANCOCK: I appreciate your time in coming out |
| 17 | today. |
| 18 | THE WITNESS: Thank you. |
| 19 | THE COURT: Thank you. You may step down. Thank |
| 20 | you, Mr. Henrichs. |
| 21 | MR. ROSENBAUM: Steve Rosenbaum for the |
| 22 | International Dairy Foods Association. |
| 23 | We call Terry Brockman as the next witness. |
| 24 | THE COURT: Mr. Brockman, please raise your right |
| 25 | hand. |
| 26 | TERRY BROCKMAN, |
| 27 | Being first duly sworn, was examined and |
| 28 | testified as follows: |



| 1 | THE COURT: Thank you, sir. |
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| 2 | Your witness, Mr. Rosenbaum. |
| 3 | DIRECT EXAMINATION |
| 4 | BY MR. ROSENBAUM: |
| 5 | Q. Good morning, Mr. Brockman. |
| 6 | Have you prepared a written statement that is your |
| | |
| 7 | testimony today? |
| 8 | A. Yes, I have. |
| 9 | Q. Is that the document that's before you that's |
| 10 | marked as IDFA Exhibit 27 in the upper right-hand corner? |
| 11 | A. Yes. |
| 12 | MR. ROSENBAUM: Your Honor, I would ask that this |
| 13 | document be marked with the next exhibit number. |
| 14 | THE COURT: Yes. This exhibit will be marked 202. |
| 15 | (Thereafter, Exhibit Number 202 was marked |
| 16 | for identification.) |
| 17 | BY MR. ROSENBAUM: |
| 18 | Q. Mr. Brockman, could you please read your |
| 19 | statement? |
| 20 | A. Hi. I'm Terry Brockman, B-R-O-C-K-M-A-N. I'm |
| 21 | senior vice president dairy procurement, ingredients and |
| 22 | industry affairs for Saputo, USA, headquartered in |
| 23 | Milwaukee, Wisconsin. |
| 24 | Our business address is 10700 Research Drive, |
| 25 | Suite 400, Milwaukee, Wisconsin, 53226. |
| 26 | Saputo USA operates 29 plants in the United |
| 27 | States, manufacturing and packaging a variety of cheeses, |
| 28 | cultured dairy products, whey ingredients, and extended |



shelf-life, and aseptic dairy products. We employ approximately 7900 employees in the United States. We are among the top three cheese manufacturers, and one of the largest producers of extended shelf-life fluid products.

22 of the 29 plants in the United States process milk and receive milk pooled in seven different Federal Milk Marketing Orders. Most of the milk we buy is regulated by the Federal Order system and extends, at least to some degree, to all classes of milk. Therefore, Saputo has a strong interest in the decision by USDA as a result of this hearing.

As senior vice president of dairy procurement, ingredients, and industry affairs, my responsibilities, among other things, include milk and cream procurement for all the company's U.S. manufacturing facilities. Another one of my responsibilities is to represent Saputo USA and participate as a member in several industry associations.

I'm currently serving as secretary of the International Dairy Foods Association's executive council. I also serve on two segment boards within IDFA, which are the cheese and ingredients segment boards. Additionally, I sit on the executive board of American Dairy Products Institute, or ADPI. Saputo is also a member and supporter of several other key industry associations. We actively participate as a member of the Wisconsin Cheese Makers Association, the Dairy Institute of California, the Cheese Importers Association, and the United States Dairy Export Council, to name a few.



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I have been part of the dairy industry since August of 1997, working at Saputo USA for that entire 26-year period, minus a few months. I have held various roles within Saputo USA with the -- with the longest in duration being president and chief operating officer for our U.S. cheese division for 14 years. My educational background includes a Bachelor of science degree from the University of Wisconsin LaCrosse in political science and graduate course work at the University of Wisconsin Green Bay.

Our position:

We have reviewed and support the testimony of Mr. Mike Brown representing the International Dairy Foods Association. I specifically want to testify on Proposal Numbers 3, 6, 8, and 9.

Proposal Number 3, submitted by National Milk
Producers Federation to remove 500-pound cheddar barrel
pricing from NDPSR price used to calculate Class III
protein should be rejected. Cheddar barrels make up
approximately 50% of the cheese surveyed each week. This
proposal would create even more price disparity between
cheddar barrel CME market price and Class III pricing.
They would be completely disconnected. In my opinion,
this would create even greater margin volatility for
500-pound cheddar barrel manufacturers. This proposal has
been rejected in the past by USDA, and it should be
rejected again for the same reasons.

Proposal 6, submitted by the California Dairy



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Campaign to include mozzarella cheese in the product price surveys should be rejected. Without more clear and concise information on how this would be accomplished, we cannot support this proposal. As the second largest mozzarella manufacturer in the United States, Saputo USA's mozzarella facilities are all unique. The processes and equipment utilized are designed to make finished products that meet customer and consumer expectation. Recipes are designed to achieve finished good analytical data for fat, solids nonfat, moistures and salt, to meet customer needs and expectations.

Our low-moisture part-skim mozzarella string cheese plants are very different and have much higher cost structures than our low-moisture part-skim mozzarella loaf plants that service our foodservice and industrial customers. The multitude of mozzarella recipes, finished product analytical data, packaging formats, and production processes, all vary greatly based upon the customer and consumer expectations. For these reasons, mozzarella should not be included in product price surveys used to establish minimum Class III pricing.

Proposals 8 and 9 are addressing Class III and Class IV Make Allowance increases. Saputo USA supports the Make Allowance proposals from the Wisconsin Cheese Makers Association and the International Dairy Foods Associations. The Wisconsin Cheese Makers and IDFA proposals -- proposal use an average of Dr. Schiek's studies, which uses the 2016 California Department of



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Agriculture audited manufacturing cost study adjusted with inflation indexes and the last manufacturing cost survey from Dr. Mark Stephenson using 2022 plant survey data.

Saputo USA participated in Dr. Stephenson's 2022 cost survey. We submitted whey drying cost data from our Las Cruces, New Mexico plant. We don't make commodity cheddar, therefore, we did not submit manufacturing cost data for cheddar.

Updating the current manufacturing allowances are a must. Manufacturing allowances in Class III and Class IV milk pricing formulas don't reflect current processing costs for cheddar, whey, nonfat dry milk, and butter.

Saputo USA's cost to process raw milk into finished product is comprised of the following general cost categories: Overhead, direct raw materials, direct labor.

These three categories, when excluding milk, comprise approximately 20% of the total cost to process raw milk into finished cheese. In reviewing the cost history of categories listed above, we focused primarily on the below subsets of these categories, as they are large contributors to the categories:

On overhead: Energy and electricity and repair and maintenance cost;

Direct raw materials: Resin-based materials and corrugated packaging;

And for direct labor: Manufacturing hourly rates.



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Significant increases have occurred across all major categories that make up the cost of processing raw milk into finished product. While the information below reflects Producer Price Index market information, Saputo has experienced similar increases over the identified time periods.

Overhead impact. Over the period from January twenty -- or January 2006 through July 2023, energy costs in particular have increased. The Producer Price Index and industrial electric power and industrial machinery and equipment repair and maintenance used for support are compiled by the US Bureau of Labor Statistics. The annual average price index for electrical power has risen 74%, and repair and maintenance has risen 53% since 2006.

And I have the reference and data sources below.

Direct raw materials or packaging impact:

The annual average price index for plastics material and resin manufacturing has risen 42%, and corrugated paperboard in sheets and rolls has risen 78% since 2006.

Manufacturing labor impact:

The annual average price index and average hourly earnings of production and non-supervisory employees manufacturing has risen 55% since 2006.

Over this same time period, Saputo USA has focused on offsetting these significant cost increases through better efficiencies at all our plants. We consolidated our operational footprint to gain scale and improve



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Additionally, we invested in hundreds of millions of dollars to improve our processing equipment, installed packaging automation systems at the end of our production lines, deployed new technology to reduce energy consumption, and implemented waste reduction initiatives to reduce wastewater cost. This was done throughout our operation -- operational network in the United States, and yet, we have been unable to offset the increases in manufacturing costs.

Having accurate manufacturing allowances are an important aspect of the Federal Milk Marketing Order. The Federal Milk Marketing Order system relies on these Make Allowances to set minimum pricing and distribute pool revenues.

Dairy manufacturers need Federal Milk Marketing
Order Make Allowances to accurately reflect the cost to
produce cheddar, whey, nonfat dry milk, and butter.
Without this, manufacturers will be sent wrong financial
signals impacting investment, capital disbursement, and
Federal Milk Marketing Order pooling decisions.

It has been over 15 years since Make Allowances were last updated, and it was based on data from 2006. I'm going to reiterate a point that Mike Brown has in his testimony as the IDFA's chief economist made: "The cheese, butter, whey, and nonfat dry milk manufacturing industries urgently need immediate relief from the highly injurious fixed relationship between output prices and



minimum regulated prices that do not reflect current industry costs. The existing use of fixed out-of-date Make Allowances is a major problem for all dairy product manufacturers producing cheese, butter, whey, and nonfat dry milk."

Thank you for allowing me to testify on behalf of Saputo USA.

Q. Thank you very much, Mr. Brockman. I have a few questions relating to some of the testimony that's come in regarding some -- a few issues.

One of them was some testimony by, I believe it was a National Milk witness that indicated that under the IDFA proposal, at least some of the time the Make Allowance would actually exceed the sale price for whey, meaning that people would be selling their whey at a loss, I mean, more than their manufacturing cost.

Can you comment on what, in fact, has been the experience on that issue historically?

- A. Historically that happens all the time. The cost to dry whey exceeds what's in the Make Allowance, and the markets frequently don't make sense to even dry the whey because by the time you dry it and sell it, the selling price is lower than the cost of the materials that you paid for it in the milk as well as drying.
- Q. Okay. And why -- why do you dry under those conditions?
- A. Well, when you make cheese, you get whey, and the only place to go with it is generally through a dryer or



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to sell it to someone else that has a dryer, or concentrate it and sell it as animal feed. If you don't have those outlets ahead of time, you have to dry it, there's no choice, and you have to inventory it and sell it for the market price.

- Q. You get what you can even though it doesn't actually end up being a profitable undertaking; is that right?
- A. Fair. Yes. If you want to make cheese, you have to process whey.
- Q. Now, there also has been some testimony about how much of the cheese industry as a whole is priced off of 40-pound blocks versus 500-pound barrels, and perhaps some suggestion that -- there may be two or three identified exceptions -- if the product is not being sold off of the 500-pound barrel market, then sort of by default it is priced off of the 40-pound block market.

Could you comment on your views as to that question?

A. Well, I think that, as they mentioned, people were throwing around percentages of what is sold on block and what is sold on barrel. I think what they are -- a big segment that they are forgetting is the branded retail side of the business. So branded retail cheese is sold on a case price to the retailer. It is not sold on a block market. It's not sold on the barrel market. It's a fixed price. And, for example, our branded string cheese, we sell it on a case price to the retailer and work our



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promotional or trade spending off that price. It has nothing to do with the block market. You focus much more on the Class III for the input cost.

- Q. What about for export?
- A. Exports, Asia, and what I would say, the Middle East, North Africa, South America, are on tenders. What I call a tender is people go out for a quarter in advance and ask for pricing, and you have to compete on the global market for that pricing if you want to sell into those markets during that quarter. So it's a global market, and it's not based on any block market indices or barrel.
- MR. ROSENBAUM: The witness is available for cross-examination.

CROSS-EXAMINATION

15 BY MR. MILTNER:

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- Q. Good morning, Mr. Brockman.
- 17 A. Good morning.
 - Q. For the record, I'm Ryan Miltner, and I represent Select Milk Producers.
 - I wanted to talk with you about your whey operations. You have a lot of cheese plants, correct?
 - A. Yes.
 - Q. You made reference specifically only to one whey plant in Las Cruces, correct?
 - A. Correct.
- Q. Is that the former F&A cheese plant?
- 27 A. Yes, it is.
- 28 Q. Okay. What type of whey products are produced at



1 | that plant?

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- A. Just sweet dry whey.
- Q. It is just dry whey. There are no other WPCs or WPIs produced there?
 - A. That's correct.
 - Q. At your other cheese plants, do you produce dry whey?
 - A. Yes. We have capabilities to produce dry whey even though they are not the primary products.
- 10 Q. At those plants, do you produce more of the WPCs and WPIs?
- 12 A. Yes. We produce the WPC34 and WPC80s, as well as 13 drying permeate.
 - Q. At the plant in Las Cruces, what types of these cheeses are produced there?
 - A. Pasta filata or mozzarella and provolone.
 - Q. I think you made reference in your statement that you didn't make any commodity cheddar, and in fact, that at Las Cruces you make no cheddar at all, correct?
- 20 A. That's correct.
- Q. For the dry whey that you produce at Las Cruces, is that -- are the sales reported to the NDPSR?
 - A. Yes, they are.
- Q. Does Saputo report any other dry whey sales to the NDPSR from other plants?
- A. When we make them in Waupun, we report them as well.
 - Q. Did the dry whey manufacturing costs for any



1 plants other than Las Cruces get reported to

- 2 Dr. Stephenson?
 - A. No.

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- Q. I can't remember exactly when, but when did Saputo acquire the F&A plant?
 - A. I want to say it was late 2017, December of 2017.
- Q. That sounds reasonable to me. And you would know better than I, I think.

You -- I'm curious, if -- if in preparing National Milk's proposal or preparing for your testimony, did Saputo look at the dry whey costs at Las Cruces, the processing costs from like when you acquired it say early 2018 to now?

- A. I -- I have not looked at that specifically.
- Q. Did Saputo look specifically at its costs to produce dry whey at any facility in preparing for your testimony today?
 - A. We submitted the survey document whenever that was. That was to the extent on the dry whey that we looked at.
 - Q. Okay. In addition to that, did you -- did Saputo look at any of its historical costs to be able to say, boy, our cost to produce dry whey in 2008 was X, and in 2022 or 2023, it is 3X, or whatever that is?
 - A. Not the comparison, but I know what the cost is to dry whey at our plants.
 - Q. Okay.
- 28 A. So --



- Q. Are you willing to share that?
- 2 A. No.

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Q. I had to ask. Okay.

Okay. In your statement you talk about some investments that Saputo has made into its various facilities.

Now, you are aware that depreciation costs are included in Dr. Stephenson's study, correct?

- A. I believe so. Yes.
- Q. And so whatever those costs that Saputo has, if they were reported to Dr. Stephenson, they would be included in his manufacturing costs, correct?
- A. Yes.
 - Q. Those projects, those capital projects you described, you described them as investments to improve your efficiencies, right?
- 17 A. Yes.
 - Q. Now, were you part of the decision-making process on those improvements?
- 20 A. Yes.
- Q. Would you characterize those as upgrades to
 facilities or replacements of equipment that had reached
 the end of their useful life?
 - A. I think they were in many cases both.
 - Q. Okay. So you did have the ability to make the necessary capital improvements to your plants to keep them functional and operational?
- 28 A. Yes.



- Q. When you made those decisions, did you prepare anything like an IRR, an ROI analysis, a payback calculation, or anything on those various projects?
 - A. Definitely on the larger projects.
- Q. And I assume because you went forward, those analyses showed that they were a net financial benefit to Saputo in your plant operations?
- A. They offset cost increases that we needed to be competitive, yes. I mean, it is -- when -- when -- when we talk about reasons to invest, a kilowatt rate is a kilowatt rate. And if that kilowatt rate goes up by 50%, and you reduce the number of kilowatts you use because you spend capital, part of that capital return is the -- you know, the return is to pay for the capital you outlaid upfront and the interest you had on it. So that -- but -- so it's -- it doesn't change the fact that the kilowatt rates are more expensive for energy.
 - Q. I agree with that entirely.
- But the investments were made because they were either going to increase the income to Saputo or reduce its operating costs, correct?
- A. Yes. Yes. For the ones that weren't just equipment replacements.
- Q. Okay. But those were necessary just to keep the operation going, right?
 - A. Yes, to be functional.
- Q. So I'm -- I'm -- given that, I'd like to you expand on the last sentence on page 4. Where you say,



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"This was done throughout our operational network in the United States, and we have yet been" -- "we have" -- sorry -- "and yet we have been unable to offset the increases in manufacturing costs."

Now, explain for me what you mean by that sentence.

- A. What I mean is that we spent hundreds of millions of dollars to improve our operational footprint and our ability to process and make cheese and dairy products, and yet, have been able to recover the full cost of the increases that we have received.
- Q. So if I may take that a step further, even despite these improvements, your overall costs have increased, correct?
 - A. Yes.

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- Q. But Saputo has realized the economic benefit it expected to when it did its IRR or payback or return on investment analysis, correct?
- A. Depending on when we did them during this time period, I would say earlier ones, yes. More recent ones, not yet.
- Q. Is that because of interest rate environments or --
- A. That's -- most of them have duration for payback, so you just have to get to the time period.
 - Q. So -- so they haven't been fully paid back, but you -- you are -- they are generating cost savings or income to move toward a payback?



Yes. Α.

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- 2. Okav. You provided also a lot of data on PPI and your packaging overhead and labor. I'm curious as to why 3 4 you chose to present PPI data instead of Saputo's data on those line items. 5
 - Α. Just because I don't want to give out that information publically.
 - And I know that other manufacturers have said not Ο. to the dollar amount, but, you know, our packaging costs are up 54% or whatever.
- 11 But you chose not to provide that information, 12 correct?
- Because it's a public company, we don't share that Α. 14 with our current -- we don't provide that information publicly.
- 16 Ο. Okay.
- 17 So to do it in this setting would be not 18 appropriate.
- 19 So the current Make Allowance for dry whey is Ο. 2.0 \$0.1991.
- 2.1 Α. Yes.
- 22 And is that Make Allowance high enough to cover 23 Saputo's current make costs on whey?
 - Α. No.
- 25 National Milk proposes, in year one -- I'm Ο. 26 sorry -- IDFA proposes in year one of its proposal, 27 \$0.2574.
 - Would that be a level high enough to cover



Saputo's cost to dry whey?

- A. Now, it would be no.
- Q. I didn't hear the first part of your answer.
- A. No. Right now, no.
- Q. Okay. In year four of IDFA's proposal it is \$0.3157. Would that be high enough to cover Saputo's cost
- 7 | to dry whey?

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- A. Today?
- O. Yes.
- 10 A. Yes. I don't know what the future will look like.
- 11 | O. None of us do.
- You -- it's pretty clear your position on barrels and their inclusion in the survey. Obviously, it's also clear Saputo produces no barrels, correct?
- 15 A. That's correct.
 - Q. And Mr. Rosenbaum asked you some questions about that, and if I can summarize what I understood from your answers, you explained that the retail market, the wholesale retail market where you sell the stuff that we buy at Kroger every week, that's divorced from block and barrel prices, correct?
 - A. The branded business is.
 - Q. Okay. And I think you also said that the export market is divorced from block and barrel pricing -- or at least barrel pricing. Was that correct? Did I understand correctly?
 - A. The markets that I mentioned, Asia, South America, Middle East, North Africa, yes.



- Q. And are those Saputo's primary --
- A. Those are the ones that we sell into that I can speak to.
- Q. Okay. And right now -- and it changes over time, but barrels tend to decrease the Class III price, at least they have recently, correct?
- A. Based upon the information that I have seen during some of the testimonies, yes. Over the last, I want to say five years, there's a larger gap.
- Q. And you -- and I think you said that because of the market Saputo operates in, that Class III price is more relevant to you than the block price or the barrel price when you sell your products, right?
- A. It is always the most relevant because that's your cost.
- Q. So is the reason that you want to keep the barrels in, so that the Class III price is lower?
- A. Well, it actually -- sometimes the barrel price hurts the correlation that I have between what I'm selling versus what I'm -- what I'm selling. So if I'm selling on the block and the barrel market's higher, I have actually had an inverse relationship, which happens during certain months and certain quarters, and it can go the other way. Like you are saying, over the last five years, the gap has widened, that barrel prices are lower.
- I -- right now, in regards to pricing on the
 Class III, we sell most of our product, other than what I
 mentioned in exports and at the retail trade, mostly on



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the block market on an overage.

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- Q. Okay. I must have missed that because I thought before you said the two markets you were concerned with were retail -- branded retail and export, and that -- and that barrels and blocks didn't apply to that, and now you are saying that you do price product off of blocks and barrels.
- A. I was specifically talking that retail branded items are not sold on the blocks, and where we sell into Korea, South America, Middle East, and North America are not sold on the blocks. All the rest of our business domestically in the United States on mozzarella, and a lot of other products, are sold on an over-the-block basis. Could be under-the-block basis as well.
- Q. Okay. So they are all priced off blocks, not barrels?
 - A. Right. I was just trying, basically through the question, is to tie out that 100% subset, 95% was sold on the block, others said 70 to 75%.
- Q. Okay. But none of your products are sold off the barrel, right?
 - A. That's correct.
 - O. Okay.
- 24 A. But we do buy off the barrel.
- 25 Q. Okay.
- 26 A. We buy processed cheese --
- 27 O. Okay.
- 28 A. -- and resell.



| 1 | MR. MILTNER: All right. Thanks for helping to |
|----|---|
| 2 | clarify that. |
| 3 | THE WITNESS: You're welcome. |
| 4 | THE COURT: Further questions other than AMS? |
| 5 | AMS? |
| 6 | Oh, I'm sorry, Ms. Hancock. |
| 7 | CROSS-EXAMINATION |
| 8 | BY MS. HANCOCK: |
| 9 | Q. Good afternoon, Mr. Brockman or, no, good |
| 10 | morning, sorry. |
| 11 | A. Good morning. |
| 12 | Q. Maybe I'm still in yesterday. |
| 13 | Did you submit I think you said that you |
| 14 | submitted information for Dr. Stephenson's survey. I |
| 15 | think it said 2022; is that right? |
| 16 | A. Yeah. I believe it was their 2023 survey, but |
| 17 | the we submitted it, I think, 2022. |
| 18 | Q. Did you submit your information for the 2021 |
| 19 | survey? |
| 20 | A. No. |
| 21 | Q. Why not? |
| 22 | A. To be honest with you, I I don't know why. I |
| 23 | don't know. |
| 24 | Q. Okay. And you did so for the 2022 survey, because |
| 25 | IDFA was encouraging its members to do so, and so there |
| 26 | was a direct reach out for that? |
| 27 | A. Is that a question? |
| 28 | Q. Yeah. Sorry. |



- A. No, I was made aware of the survey, and I wanted to participate. And we used Las Cruces because it was the easiest, cleanest plant that we had in regards to one product, one dryer, it was a very simple, easy exercise for our cost accountants to put together and fill out the survey.
 - Q. Okay. So did you only respond with one plant?
 - A. Yes, as I mentioned.
- Q. I think you said that -- you were just last talking with Mr. Miltner about pricing mozzarella off the blocks, and I'm wondering if that's been a seamless process for you to be able to price your mozzarella. Any issues?
- A. What do you mean seamless?
- Q. Any issues that you have had pricing your mozzarella off the blocks?
 - A. Besides not getting enough of a price, I guess, but -- no, there's been no issues with pricing off the block for mozzarella.
- Q. Okay. And -- and that's always the case, right,
 that you just want to get more, a better price; is that
 fair?
- 23 A. Yes.

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- Q. And you're a publicly traded company, and so all of your financials are publicly reported online; is that accurate?
 - A. Since 1998.
 - Q. Okay. And if I look at the most recent financials



for Saputo, it says that Saputo has been returning a profit 4.468 billion in 2023.

Does that sound right?

- A. I -- I don't have it memorized off the top of my head but --
 - Q. In the ballpark?

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- A. Are you talking EBITA or are you referring to --
- Q. I'm talking about just Saputo revenues. So we can talk about EBITA --
- A. Oh, you are talking about revenues, because you said profit.
 - Q. Okay. Well, we can talk about EBITA.

 Your EBITA was 392 million in 2023; is that right?
 - A. I don't think that's accurate. But are you looking at a quarter? What are you looking at?
 - Q. I'm looking for fourth quarter fiscal 2023.
 - A. Are you looking at the U.S. division? Global division? I don't know what you are looking at.
 - Q. Do you know what the 2023 U.S. division EBITA was for 2023?
- A. So you are looking at the U.S. division, not the global company?
 - O. I'm just asking if you know.
- A. Not off the top of my head exactly what it was at the end of the year. But if you are looking at the U.S. division and you are saying it is 392 million, and you are referring to it as Canadian dollars? Is that what you are referring to 392 to?



- Q. I'm asking what your knowledge is. Do you know what the profits -- do you know what the EBITA was for fiscal year 2023 for the U.S. division in U.S. dollars for Saputo?
 - A. I would say it's in the upper 300s.
- Q. And is it fair to say that it represents a sizeable percentage increase in fiscal year 2023 over 2022?
- 9 A. Yes.

- 10 Q. Do you know what the percentage is?
- 11 A. Not off the top of my head, no.
- 12 | 0. More than 40%?
- 13 A. I don't know. Could be.
- Q. Saputo is -- I think it characterizes its
- 15 | facilities as world class facilities.
- Have you heard that used to characterize Saputo's facilities?
- 18 A. I would say some are.
- 19 0. Which ones?
- 20 A. We have over 60, so which one --
- Q. Which ones would you consider to be the world class --
- A. Do you want to talk about the U.S. ones or do you want to talk about the global ones?
 - Q. We can talk about U.S.
- A. I would say we have probably three world class facilities in the U.S. on the cheese side.
 - Q. Which ones would those be?



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- 1 A. I'd say Tulare Paige, Waupun, and Tulare Levin.
- Q. And the one that is under construction now, where
- 3 is that located?

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- A. In Southeast Wisconsin.
- Q. Will that be a world class facility when it opens?
- 6 A. I hope so. Yes.
 - Q. That's the plan, right?
- 8 A. That's the plan.
 - Q. It is scheduled to open in 2025?
- 10 A. It's scheduled to start later this year.
- 11 Q. Okay. It will start processing in --
- 12 A. Fully complete by that.
- Q. Okay. So that's good clarification. You will
- 14 start processing product there this year, but it will be
- 15 | fully complete by October of 2025?
- 16 A. Yes.
- 17 | O. And it started at a \$240 million investment.
- Do you know where it's landing by the time you are
- 19 | fully open and completed in 2025?
- 20 A. I don't have any updated calculations on that.
- 21 Q. Something in excess of the \$240 million?
- 22 A. I don't know. It's not my area of responsibility
- 23 | anymore to track the capital projects but --
- Q. And then there's also an expansion to the string
- 25 | cheese on the West Coast?
- 26 A. Yes.
- Q. And that's another \$75 million project?
- 28 A. Yes.



- Q. And those are expected to provide a profitable return no later than the fourth quarter for 2024 for the two projects; is that right?
 - A. Yeah. Again, that's the plan.
- Q. So then if we open -- if you are opening the new facility in the end of the year in 2023, within 12 months you are expecting that new plant and the expansion on the string cheese to have profit returned within 12 months?
 - A. Yes.

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- Q. And then you have made some decisions to close several other facilities that were less efficient and outdated?
- A. Yes.
- Q. And I think I counted five.

 Does that sound right?
 - A. That sounds a little high, but it -- I -- I got to go back and count them, I guess. I got to go look at the -- what we call is the strategic plan. But I can -- one's not really closed, it's being reutilized. So I won't say it is closed.
 - Q. Okay. So four are closing and one is being repurposed?
 - A. You are -- yeah. Four. Correct.
- Q. Okay. And with those closures, you would agree with me that Saputo's efficiencies in its plant processing capabilities are going to be improved?
 - A. Yes.
 - Q. And have you measured the percentage of cost



efficiency improvement that you expect to receive by closing those plants, those four plants, repurposing one plant, and then opening the new plant?

- A. The analysis has been done.
- Q. Do you know what the percentage of improvement is to the cost structure for processing the products by these strategic changes that Saputo is expecting to receive?
 - A. Not off the top of my head, no.
 - O. Greater than 30%?
- 10 A. I don't know.

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- Q. Okay. Can you ballpark it?
- 12 A. It's probably, if it's -- I would refer back to
 13 the press release that you are getting the information off
 14 of as being the most accurate, public available.
- 15 | That's -- that's what I would use.
 - Q. Okay. If your press release or your public statements that you issue to your shareholders said that it was 47%, would you have any reason to disagree with that?
- 20 A. I would not.
 - Q. Do you know -- I think that when you were talking with Mr. Miltner just now, you were able to -- to look at the proposed Make Allowance increases and tell him at what point you believed that it would cover the Make Allowances for Saputo; is that right?
 - A. Yes.
 - Q. And I can't -- I didn't -- I don't know if I caught it, but was it year two for IDFA's proposal that



- 1 you said it would cover the Make Allowances?
- A. He basically asked the first year and the last year.
 - Q. Okay. Do you --
 - A. That's what he used.
- Q. What year is it that it would cover Saputo's
- 7 | Make Allowance?

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- A. I would rather just keep it to the answer that I had instead of trying to narrow it in to what my cost is.
- 10 Q. So somewhere between two and three; is that fair?
- 11 A. I -- I think I just answered that I would rather 12 not narrow it in.
- Q. Okay. Can you tell me what year it was that the current Make Allowances that are set became insufficient to cover Saputo's costs?
- 16 A. I would say the date it was implemented for some 17 plants.
- 18 | O. Back in 2008?
- 19 A. Yes.
- 20 Q. Based on the efficiency levels of those plants?
- 21 A. Yes.
- Q. And those are some of the plants that we just talked about have since been closed?
- 24 A. No, they were closed a long time ago.
- Q. Okay. And others that have then since been closed.
- 27 A. Yes.
- 28 Q. Okay. And so when you were giving the answer to



- A. You realize the plants that were closing don't process milk, right?
- Q. Well, I mean, I'm just asking because you said that you closed them for efficiency purposes.
- A. Yes, but they don't process milk. So really from a Make Allowance perspective, I don't think it has any bearing.
- Q. So is all of the improvement in the cost efficiencies coming out of just the construction of the new plant?
- A. They are cut-and-wrap operations that are going into the new plant. So old cut-and-wrap operations are being closed into a new one.
 - O. And -- and the new --
 - A. They can automate --
 - Q. Go ahead. I didn't mean to cut you off.
- A. No. They're automated. It's all about automation and having long straight buildings that can have straight lines that can be automated without people. And our older facilities are cut up and not allowing you to have long,



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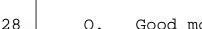
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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 straight, narrow, efficient processing lines. 2. And then it also allows to you move into different 3 geographic territories where you can reduce some of your 4 hauling costs as well? Α. Yes. 5 6 MS. HANCOCK: Okay. That's all I have. Thank you 7 for your time. 8 THE WITNESS: Thank you. 9 CROSS EXAMINATION 10 BY MR. ROSENBAUM: Steve Rosenbaum, again, just to clarify what you 11 Ο. 12 were talking about at the end. 13 The brand new plant that we have been spending 14 some time talking about, that is not a cheese 15 manufacturing plant; is that correct? 16 Α. It is not. 17 Ο. It doesn't receive any milk, correct? 18 That's correct. Α. 19 It's a cut-and-wrap operation? Ο. 2.0 Α. Yes. 2.1 Its costs are not included in anyone's calculation Ο. 22 of Make Allowances, correct? 23 That's correct. Α. 2.4 MR. ROSENBAUM: That's all. Thank you. 25 THE COURT: Mr. English. 26 CROSS-EXAMINATION



BY MR. ENGLISH:

Q. Good morning. My name is Chip English for the



| 1 | Milk Innovation Group. |
|----|--|
| 2 | Mr. Brockman, does Saputo receive any Grade B |
| 3 | milk? |
| 4 | A. No. |
| 5 | Q. If you stopped receiving Grade B milk at any time, |
| 6 | when did you last receive Grade B milk? |
| 7 | A. We stopped probably in 2015 or 2016. |
| 8 | MR. ENGLISH: Thank you. That's all I have. |
| 9 | THE COURT: Okay. Are we ready for AMS? |
| 10 | Looks like Ms. Taylor. |
| 11 | CROSS-EXAMINATION |
| 12 | BY MS. TAYLOR: |
| 13 | Q. Good morning. |
| 14 | A. Good morning. |
| 15 | Q. Than you for coming to testify today. |
| 16 | A. Thank you. |
| 17 | Q. Of your okay. So I want to make sure I |
| 18 | understand Saputo's footprint. |
| 19 | You have 29 plants, and 22 process milk, so the |
| 20 | other seven are cut-and-wrap operations or other things? |
| 21 | A. Yes. |
| 22 | Q. Okay. And of the 22 that you do receive milk |
| 23 | from, how are those supplied? |
| 24 | A. We purchase milk either through cooperatives or |
| 25 | our direct farmer base. |
| 26 | Q. And do you know roughly in total percentage |
| 27 | breakdown of your co-op versus your independent direct |
| 28 | shipper supply? |



- A. Yes, I do.
- 2 \ Q. Would you mind sharing?
 - A. We don't share that publicly at this time but --
 - Q. Okay.

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- A. -- it's -- we try to -- to be balanced.
- Q. And do you pool milk on all of those with the those 22 plants?
 - A. I would say most of the time, yes.
- Q. But you do not pool milk some of the time when that's a good business decision?
- A. Yeah, based upon the pooling parameters in the Federal Orders that we reside.
- Q. Okay. And there's been talk recently, I don't know how much of the hearing, I don't know what week we're on now, you listened to perhaps, but throughout the hearing you have heard discussions of how producers have been impacted by inadequate Make Allowances as they have been presented to us and how that's impacting lower pay prices to them through a co-op side, and then maybe that's reblending those losses across the members; from the proprietary side that might be paying less premiums to your shippers, etcetera.

So I wondered if you could talk to how Saputo has dealt with or tried to -- how Saputo has dealt with those manufacturing losses as you would term them in their pay prices to producers?

A. I think there's been terms thrown around like relief valves or things that you can do to -- obviously,



- Q. And are you talking there Saputo specifically or just generally?
- A. Talking about that's -- that's the market. What I would say the -- to buy milk, that's the market. So if you want to procure the milk, the market's \$1.50 over class, that's what you have to pay. Sometimes it is lower. And I would say right now it is a dollar off where it was just ten years ago on the over-class premiums in the Midwest.
- Q. So Saputo does pay premiums when it needs to -- to get milk supply?
 - A. Yes.

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Q. And there's been discussion from -- you know, there's two sides of the coin, right? We hear people testifying that from a producer side it is really hard to renegotiate those premiums. And I mean, to be frank, we hear testimony on the other side that says, well, if they need more premiums, they can come to us, and we can negotiate that.

So I guess it's up to the USDA to figure that out as everyone has so eloquently put in this hearing multiple times, but when it comes to how Saputo operates, you know, how often do those -- how often do those discussions occur?



| A. So since I'm responsible for the milk procurement, |
|--|
| I have several conversations with farmers weekly, monthly, |
| that I can say unequivocally the farmers have been worried |
| more about market access and having availability to |
| markets over their last five years than they have been |
| worried about premiums. They want a market for their |
| product, one they can go back to the bank and say, I have |
| somebody that's going to take my milk. Not somebody that, |
| I am making \$0.50 or \$0.60 over class. It's more, will |
| you take my milk and take it every day? I can't afford to |
| be cut off. I have a 3,000-cow dairy; I need a market for |
| the milk |

- Q. So -- but when it comes to my question on how often you have discussions about premiums?
- A. How often? We generally set our premiums on an annual basis.
 - O. Thank you.
- Do you have any plants that take milk located in California?
- 20 A. Yes, it's one of our biggest orders.
 - Q. Okay. So we have a study -- you know,
 Dr. Stephenson's study, which you all did participate
 in -- well, let me ask this question because I don't know
 Saputo's footprint. In California, those plants, do they
 produce products that were reported to Dr. Stephenson?
 - A. No.
 - Q. Okay. Then I won't ask.

 And you make cheddar, so -- but you don't make



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barrels; is that right?

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- A. We make what I would call specialty cheddar, you know, aging product for three years, or that include -- have inclusions and/or kosher, organic, non-GMO, what I'd call specialty cheddar.
- Q. Okay. So no reportable cheddar, NDPSR reportable cheddar?
- A. If we do make it because we don't have anything else to put it in, then we would and report it.
- Q. Okay. I wanted to ask you a couple of questions on mozzarella, what you do make; is that correct?
 - A. Yes.
- Q. Okay. I know you talked about how your costs are different in making cheddar. Would you say they are -- I guess, can you expand on how they might be different -- or excuse me -- on making mozzarella, can you expand on how they might be different and how much more of a cost you would see in making your mozzarella products versus your cheddar that you might happen to put in a block or a barrel and report?
- A. I wouldn't say necessarily that it's more. I mean, mozzarella is a different type of cheese, generally with a much higher moisture content than cheddar. So, therefore, you know, when you -- it just -- you have less solids than if you are selling it as a 48 or 50% moisture. So it's the cost that's -- not necessarily higher, unless you put it into different formats.
 - Q. Okay. And there has been some discussion when we



- 1 did have California Dairy Campaign here to discuss 2. mozzarella about if it was included in the survey, what would be considered a bulk size to be kind of comparable 3 to what we currently survey. 4
 - Do you have an opinion on what would a bulk size be for mozzarella?
 - Α. For kind of like as a clearing type?
 - Sure. Uh-huh. Ο.
 - I would say 20-pound mozzarella loaf. Α.
- You indicated that you participated in the 2023 10 Ο.
- 12 Α. That's correct.
- 13 I don't know if you remember, did you all 14 participate back in 2006 when Dr. Stephenson did that 15 survey? I know I'm testing your memory probably.
- 16 Α. And I don't -- I don't remember.

Dr. Stephenson study but not the 2019?

17 Ο. Okay.

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- I really don't. And to be -- I don't think we Α. owned a whey plant then.
- 2.0 Ο. Okay.
- 2.1 In fact, back then, because we acquired our -- the 22 Alto asset, which had a whey dryer, and the Land O'Lakes 23 assets in 2007 and 2008.
- 24 Okay. You talk about on page 4, give some indices 25 for costs and for energy, and I know there's some cites 26 there.
- Two questions: Does Saputo use any type of 28 hedging to lock in your energy rates?



A. Yes.

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Q. And you talk about in that energy section, comparing your costs to 2006 -- or not your cost specifically, but just what the indices say. And we did look up some of those references which you provided, and I know the one for -- or it seems to be the one for repair and maintenance, that series only goes back to 2009.

So I guess I would ask you about that. And so for the repairs and maintenance, are you saying that should just be a comparison from 2009?

- A. I'll go back and check, but -- it's a follow-up, but I -- I will look. I might have just not put the right data on the testimony. Sorry if that's not right.
- Q. I have all these wonderful people behind me that check all these things.
 - A. I believe it is right off the St. Louis Fed, and I know our procurement groups look at them --
 - Q. Yes.
 - A. -- religiously to make sure that procuring correctly.
 - Q. Okay. On your discussion of efficient investments in your plants, and I think I caught you're building a new plant, but that's just cut-and-wrap?
 - A. Yes.
 - Q. So of the other plants where you did put some investments in to gain efficiencies, would these be also to increase yields to efficiencies, not just reducing costs but increasing output?



- A. Well, the ones that -- that is currently a mozzarella plant that's being repurposed to make goat cheese, and so it's --
 - O. Not a --

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- A. I can't compare -- goat cheese is completely different than the mozzarella that it was making and the equipment is completely different.
- Q. Have you put any investments in on the whey side of the house since that is a reportable product?
 - A. Mostly in the fractionation side.
- Q. Okay. On page 5, the last sentence of the first paragraph -- well, first, the paragraph talks about dairy manufacturers needing accurate Make Allowances. And you say, "Without this, manufacturers will be sent wrong financial signals impacting investment, capital disbursement and Federal Order pooling decisions."

I'm wondering if you can just expand your thinking on that sentence for us.

A. So -- well, as a -- as a -- what I would call a global company, every division is working to get as much capital as they can to reinvest in their division or their area. And ultimately, if we want to continue to reinvest in cheese making, we have to have a positive return.

Ultimately, with the Make Allowances being out to date -- out of date, making cheese -- making it more challenging to make the return that's acceptable, you will redirect funds and capital to other areas of the business, it could be fillers for aerosol, it could be tabletop, it could be



| 1 | a variety of things. But those would get preferential |
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| 2 | treatment over cheese, maybe inaccurately. So because the |
| 3 | demand in the marketplace might be for cheese, but if |
| 4 | cheese makers can't make profits, then they won't invest |
| 5 | in it. |
| 6 | And pooling decisions, I think people have talked |
| 7 | about disorderly marketing quite frequently, but when |
| 8 | people are depooling, just because it's their only way |
| 9 | that they can make cheese and process whey to make money, |
| 10 | I think that's disorderly. |
| 11 | Q. So you would rather see it where more milk is |
| 12 | pooled? |
| 13 | A. I think that's better for everyone. |
| 14 | MS. TAYLOR: That's it from AMS. Thank you. |
| 15 | THE COURT: Mr. Rosenbaum? |
| 16 | MR. ROSENBAUM: Your Honor, I would like to move |
| 17 | Exhibit 202 into evidence. |
| 18 | THE COURT: Any objections? |
| 19 | Seeing none, Exhibit 202 is admitted into the |
| 20 | record. |
| 21 | (Thereafter, Exhibit Number 202 was received |
| 22 | into evidence.) |
| 23 | MR. ROSENBAUM: We have another witness, but we |
| 24 | have been going for about |
| 25 | THE COURT: Yes, we have, an hour and 45 minutes. |
| 26 | Off the record. |
| 27 | (Off-the-record.) |
| 28 | THE COURT: All right. You are dismissed. Thank |



| 1 | you so much for coming in. | | | | | | | | | | |
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| 2 | And we'll take a ten-minute recess. Come back at | | | | | | | | | | |
| 3 | 9:55. | | | | | | | | | | |
| 4 | Off the record. | | | | | | | | | | |
| 5 | (Whereupon, a break was taken.) | | | | | | | | | | |
| 6 | THE COURT: On the record. | | | | | | | | | | |
| 7 | Please raise your right hand. | | | | | | | | | | |
| 8 | KIM HEIMAN, | | | | | | | | | | |
| 9 | Being first duly sworn, was examined and | | | | | | | | | | |
| 10 | testified as follows: | | | | | | | | | | |
| 11 | THE COURT: Your witness. I think it's still a | | | | | | | | | | |
| 12 | valid swearing in. | | | | | | | | | | |
| 13 | MR. ROSENBAUM: I think they used to call them the | | | | | | | | | | |
| 14 | mystery knights, you know, in the jousting competitions. | | | | | | | | | | |
| 15 | DIRECT EXAMINATION | | | | | | | | | | |
| 16 | BY MR. ROSENBAUM: | | | | | | | | | | |
| 17 | Q. Could you please state your full name for the | | | | | | | | | | |
| 18 | record? | | | | | | | | | | |
| 19 | A. My name is Kim Heiman. And it's spelled K-I-M, | | | | | | | | | | |
| 20 | last name is H-E-I-M-A-N. | | | | | | | | | | |
| 21 | Q. And what is your mailing address or business | | | | | | | | | | |
| 22 | address? | | | | | | | | | | |
| 23 | A. Our business address is 10898 U.S. Highway 10, and | | | | | | | | | | |
| 24 | we're in Marshfield, Wisconsin, 54449. | | | | | | | | | | |
| 25 | Q. And you are here today appearing on behalf of the | | | | | | | | | | |
| 26 | Wisconsin Cheese Makers Association; is that correct? | | | | | | | | | | |
| 27 | A. That is correct. | | | | | | | | | | |
| 28 | Q. The first witness for that organization to appear. | | | | | | | | | | |



| 1 | Α. | Thank you. | | | | | | | | |
|----|---|---|--|--|--|--|--|--|--|--|
| 2 | Q. | Q. Welcome. | | | | | | | | |
| 3 | | You have prepared a written testimony that's been | | | | | | | | |
| 4 | marked | as exhibit WCMA-2; is that correct? | | | | | | | | |
| 5 | Α. | That's correct. | | | | | | | | |
| 6 | | MR. ROSENBAUM: Your Honor, I'd ask that this be | | | | | | | | |
| 7 | marked | with the next Hearing Exhibit number. | | | | | | | | |
| 8 | | THE COURT: So marked as 203. | | | | | | | | |
| 9 | | (Thereafter, Exhibit Number 203 was marked | | | | | | | | |
| 10 | | for identification.) | | | | | | | | |
| 11 | BY MR. | ROSENBAUM: | | | | | | | | |
| 12 | Q. | Now, Mr. Heiman, you have prepared and attached to | | | | | | | | |
| 13 | your statement a rather detailed discussion of your | | | | | | | | | |
| 14 | company's cost of making cheddar cheese; is that correct? | | | | | | | | | |
| 15 | Α. | That is correct. | | | | | | | | |
| 16 | Q. | I believe it is perhaps the most detailed | | | | | | | | |
| 17 | informa | ation that any witness has provided so far in this | | | | | | | | |
| 18 | hearing | g, so it will be of some interest as we go through. | | | | | | | | |
| 19 | | You are here to testify about WCMA Proposal 8, | | | | | | | | |
| 20 | correct | <u>.</u> ? | | | | | | | | |
| 21 | Α. | That is correct. | | | | | | | | |
| 22 | Q. | And are you aware that WCMA Proposal 8 and IDFA | | | | | | | | |
| 23 | Proposal 9 are identical, in fact? | | | | | | | | | |
| 24 | Α. | Yes, I am. | | | | | | | | |
| 25 | Q. | Developed jointly in essence, correct? | | | | | | | | |
| 26 | Α. | That's correct. | | | | | | | | |
| 27 | Q. | Okay. Could you please read us your testimony? | | | | | | | | |
| 28 | A. | Thank you. I'd love to. | | | | | | | | |



My name is Kim Heiman, and I am here today to testify in support of Proposal 8 which seeks to update the current Make Allowances with a phased-in implementation schedule.

I serve as president of Nasonville Dairy, a cheese manufacturer in Central Wisconsin that is now employing a third and fourth generation of our family, alongside 130 full-time and part-time employees. Our production site west of Marshfield is really two plants in one, with separate lines running American-style cheeses and Feta cheese. In all, we produce about 60 million pounds of cheese in 42 different varieties and styles of cheese, including colored cheddar in 40-pound blocks.

As an owner and principal of Nasonville Dairy, I'm involved in nearly every aspect of operation, with a daily emphasis on the cheese production, whey production, and wastewater processing. I have been employed with the dairy for over 40 years, and since the age of 16 have been a licensed cheesemaker in Wisconsin -- Central Wisconsin cheesemaker.

Accuracy in Make Allowances is important to the proper functioning of classified milk pricing. We pool milk in Order 30 and follow the requirements for paying our dairy farmers partners -- or dairy farm partners, excuse me -- according to order regulations. Together with my controller, I have gathered information on our costs to produce colored cheddar in 40-pound blocks, which comprises about 27% of our total cheese production.



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It is my hope that our real world data is useful to USDA as it contemplates updating Make Allowances. Cheese plants like us, and smaller cheesemakers and the large operators need up-to-date Make Allowances that reflect production costs that have skyrocketed in recent years. I can tell you that if our 55-year family operation only made colored cheddar blocks, we would not have survived the last decade. An accurate Make Allowance is the key to keeping a healthy diverse number of cheese factories operating around the country, providing the most possible options for dairy farmers to sell their fresh milk.

And not only that, but a healthy cheese making community means that a wide variety of cheeses are being produced in my state and across the U.S. The dairy industry will thrive and grow if we're producing a wide varieties of delicious cheeses from artisans, family operations, cooperatives, and corporations. We have to keep an eye on the goal of pleasing the consumer, even when we're talking about issues that are in the weeds as milk pricing formula.

As you can see by our spreadsheet marked Wisconsin Cheese Makers Association Number 2, Nasonville has broken out labor costs, utilities, bulk packaging, and non-labor and utility categories such as ingredients, supplies, maintenance, depreciation, and added these costs to the administrative costs and return on investment to yield a per pound cost of colored cheddar cheese.



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These costs are our actual costs taken from our 2022 financial statements, and they represent our 2022 costs to produce colored cheddar cheese. At the bottom line, we show a cost of \$0.3226 to produce colored cheddar in 40-pound blocks, with labor representing 19% of the cost, utilities 7%, packaging 14, non-labor and utilities 39, administration 11%, and a return on investment 11%.

I appreciate the opportunity to present this information to USDA so they can use real-world example of costs. Thank you.

Q. Thank you for reading your statement, Mr. Heiman.

A few things before I make you available for

cross-examination.

I think one thing you told me was that you -- although you obviously are in the cheese manufacturing business, you are actually fairly close to the dairy farmer business, too. Tell me about that.

A. Okay. Yes. To think that we don't take this seriously in our family on milk pricing, my two brothers have a 500-cow dairy herd. You can imagine there's quite some discussion on that. So the first phone call is generally -- if milk price is low, I know where the first phone call is coming, and it's going to be a nephew. So we take it very seriously.

Our farms that we get our milk from, we have about 200 producers, they are probably all within about a 30-mile radius of our plant, and these are people we go to church with, people we go to schools with. They are our



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neighbors. So we're not trying to beat them out of anything. What we're trying to do is be sure that we're still available to market their milk, because if we can't market their milk, now there's 200 farm families scratching and thriving to try and find a place to market their milk.

O. Thank you.

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Now, as I look at your -- we're going to have you talk about your information in a bit of detail in a minute, but I note if we turn to page 9 of 9, you have got a breakdown, poundage, labor, etcetera, etcetera, leading up to your total cost of \$0.3226 a pound, correct?

- A. That is correct.
- Q. Did you, in fact, put these materials together in a way that follows Dr. Stephenson's methodology of organizing costs?
- A. That's correct. We did not participate in Mark's survey, not by choice, simply by my own fault. I did not get the information in in time. I'll take full responsibility. But we tried to follow the methodology as close as possible to Mark's information that he asked for to gather this as close to his information.
- Q. Okay. And then another, I think you mentioned to me when we met, was related to the question of return on investment. And I -- I -- you explained to me something that hasn't come up in the hearing yet but something that makes that actually particularly important for manufacturers in Wisconsin.



So could you tell me about that?

A. In Wisconsin, it's called the Producer Security

Act. You have to -- being a processor that's going to buy

milk from a dairy farm in Wisconsin, you have to be able

to be secured that you can cover that milk check every two

weeks that you are going to send out to that farm.

Two methods you can do this is using your audited financial statement to show two different ratios. The first ratio is your current assets divided by your current liabilities cannot be greater than 1.25. The second one is your debt-to-equity ratio; your total liabilities divided by your equity and basis, has got to be less than 2.0.

This is important coming into return on investment. If you have no return on investment, there's no way you can make those ratios. If you can't make those ratios, you have to either buy insurance or bonding that could guarantee that you can cover that milk check.

And so if you have to buy outside things to do that, that's going to just continue to increase your costs of producing 40-pound colored cheddar blocks.

Q. One last question before we get into your specific numbers.

One of the -- some of the figures here that sort of are calculated using the Dr. Stephenson approach, based upon a valuation of your facilities; is that correct?

- A. That's correct.
- Q. And what did you actually use for that purpose?



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- A. A valuation of the business?
- Q. Yeah. What did you have -- what did you have those numbers from?
 - A. From our 2022 audited financial statement.
- Q. Okay. And had you had a valuation performed of your facility as well?
- A. Yes, we did. If you go to page 6, when it talks about the estimated market value of our business of \$39,037,000 -- or 37 -- yes, that valuation was actually done in 2020, simply because we had a death in the family and had to valuate the business for a stock retention.
- Q. So take us through your financials that are attached.
- A. Okay. If we can start on page 5, it shows the productions in volume. That will be important as we get to the next page. You can see we can spell out the cheddar cheeses, the colored cheddar cheese, and then the other cheddar cheeses which are -- we like to call them on the cheddar side, but they may be Asiago or Fontina, or Queso, or Monterey Jack, or blue marble, or whatever. There's a number of different cheeses, but they are all in the 40-pound block. And all the labor is from that side of the plant. The other side of the production is the Feta cheese production, which represents 32.7.

If you add the two cheddars together, you will get a number of 38,972,027. And if you divide that by the cheddar, the colored cheddar, you will see that that's where the 40.53 comes through, and that is actually the



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percentage of all of our cheddar that's colored cheddar, that actually goes with the pricing index for colored cheddar.

Q. Okay.

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A. That's important as we go to the next item. You will see gross wages. That's all of cheddar production, and that's why that number is multiplied by 40.53 to get the \$537,000.

As you skip down, you will see we put in there what our Feta wages were, our milk hauling. Those are all exempt. They are left out of there because they were not asked to be in Mark Stephenson's survey.

The lab analysis, colored cheddar is 27.25 of our production. So putting that -- as you figure all pounds that the lab is dealing with for samples, 27.25% of their time should be with the colored cheddar. The same with warehouse and loading, maintenance, things like that.

When you get down to the payroll taxes and benefits, you slide down to the next column, you will see where that all adds up to 1.86 million.

Just below that is gross wages. The gross wages are all wages, including administration. So you will take all of the wages, the gross wages on the first column to your left, and then go down to under general administration, you will see gross wages, general and administrative. Those added together will give you the 6,871,000. Now, divide that by your benefit package, and that's where you come up with 27.07. So if you move that



- back up to your 27.07 times your cheddar gross wages will give you the \$201,000 in benefits.
 - Q. That's what appears in the first -- is it the last entry item under processing labor at the top of that page?
 - A. That's correct.

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- Q. Okay. Please continue.
- A. So when you get through the wage part of that, you will see when you add those numbers to the right, you will come up with .0598.
 - Q. And that's your processing labor costs?
- 11 A. That's processing labor costs for colored cheddar 12 block.
 - Q. Per pound.
 - A. As you move down to utilities, that's electric and gas times 27.25, which is the colored cheddar percentage of our cheese, giving -- those are straight multiplied across gives you the \$0.0226.
 - Q. And that's, once again, that's the cost per pound for the cheddar cheese?
 - A. Colored cheddar cheese.
 - Q. Colored cheddar cheese. Thanks for the correction.
 - A. Packaging, you will see that it asks you to go to the packaging detail, which is on page 8. The average weight of a block of colored cheddar at our facility is 43 and a half pounds.
 - Q. I'm sorry, are you on page 8 now?
- 28 | A. Yes, I am.



Q. Okay. Thanks.

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A. The number of blocks on a pallet is 54. That number will come important as we get down to the bottom of the cost of a pallet.

So what you have is your cost of a 40-pound block, every box that you put on a 40-pound block of cheese costs approximately \$0.58. Divide that by 43.50, and that will get you your numbers. The same with the cost of the bag, the liner, the cost of the label on the outside. That will get you a .0392 if you add those top four numbers together, divide it by 43.5 because that's how many pounds are in each block, that will get you your cost per pound of .0392.

When you get to the pallet costs, the pallet is \$14.25, but you have 54 blocks on there, so you need to take that 43.50 times the 54, which is 23.49, divided that into the 14.25 gives you \$0.006 for a pallet.

Now, this is a little skewed with the fact that that's granting that every pallet has 54 blocks of cheese. You may have a customer that buys 27 or 36 blocks. That pallet is still going to cost you 14.25. But for ease of methodology, we just figured it at 54 blocks.

You add those two numbers together, the cost of the box bag liner, label, along with the pallet cost, you will get a packaging cost of .0452.

- Q. Okay. Are you going to take us back to page 6 again?
 - A. Now we're back to page 6, non-labor and utilities.



- Q. Non-labor or utilities, correct?
- A. Yeah. Yep. Non-labor and utilities processing, okay. In the ingredients, again, we have to move to page 7 because there's some math into this side of things.
 - O. All right.

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A. Starter culture is a culture that you use to actually produce cheese. You need a good bacteria. Once you pasteurize milk, you are going to kill all the bacteria in the milk, good and bad, so you need a good bacteria or a mesophilic culture to put back into your cheese.

We make our own starter powder, so that's where this cost comes in as the starter ingredient. The powder costs are \$5.36 a pound. It takes 62 pounds. And what you are doing is you are dividing that by 9.56, because you are going to get nine and a half vats of cheese out of that.

So you take your cost times your unit, divide it by 9.56 is your cost per vat. And then you divide that by the 4,725 pounds of cheese that you get out of each vat, will give you the cost per pound. That leads us up to the .0075.

So if you take 536 times 62, divide that by the 9.56, and then divide it by the 4,725, that will get you the cost per pound of starter powder.

The same with starter cultures. Once you have made the starter, you have to put in, they're called defined cultures, or a cocktail program, and you have four



different cans generally you put in there. That's where that cost comes in, and that's the .0017.

Below that it's pretty easy. It is the rennet costs are \$0.37 an ounce. It takes 45 ounces. You multiply both those numbers together and divide by the 4,725 pounds of cheese you are recovering per vat to get the numbers on the right-hand side: The salt, the Annatto, the calcium, and a TC culture, which is another Thermococcus, or another starter culture or acid provider.

When you add those all together, you will come up with an ingredients cost per pound of cheese of .0311.

- Q. Okay. So we go back to page 6 again?
- A. Back to page 6. The rest of these are all pretty much straightforward. It's the depreciation, repairs and maintenance to the production facility, supplies for production, outside services of lab testing, taxes, personal property, real estate, and trash removal are all expenses in manufacturing.

We have taken all of those numbers and multiplied them by the 27.25% of colored cheddar to get to the \$0.126 in the non-labor and utilities processing.

Next is general administration. This number is, again, the gross wages on top of administrative times 27.25, you are figuring if your administration is working for all of your facilities, 27.25 of that should be expenses for the colored cheddar.

Payroll taxes and benefits. If you go back up to where it had the total of 1,860,000 there for total



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payroll taxes and benefits, subtract the payroll taxes and benefits from the gross wages of the upper column of the general labor, you will come up with 211,000 in the total process payroll taxes and labor for administration.

That's using the 27.07%, again, for what your percentage of is for your -- for your general taxes and benefits.

Below that are all pretty much straightforward accounting and audit: Dues and subscriptions, business insurance, licenses and permitting, supplies for office and IT, telephone expense, those are all multiplied by the 27.25 as shown, and that will get you a .0348 total.

- Q. So \$0.0348 per pound for G&A, correct?
- A. Correct.

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- O. Okay.
- A. Then we get into the annual return on investment. We followed Mark Stephenson's survey here with the -- per Stephenson's testimony on page 9 of return on investment and using the average Moody bond index that he had printed in pages 29 and 30 of his report, the average of 2022, if you add all 12 of those together, you will end up with a 5.07 for the yearly average.

We multiplied that times what our estimated market value of our business is, to come up with what our annual return on investment with a 5.07%, and then multiplied that by .2725 to get the 539,000, or basically \$0.0342 per pound.

Q. And -- and just to remind us what the total cost then is?



- A. The total cost when you add all those together and we get to the final number, we're at \$0.3226 per pound.
 - Q. And that's per pound of colored cheddar cheese.
 - A. Per pound of colored cheddar cheese.

MR. ROSENBAUM: The witness is available for cross-examination.

CROSS-EXAMINATION

BY MR. MILTNER:

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- Q. Good morning, Mr. Heiman.
- 10 A. Good morning.
- 11 Q. My name is Ryan Miltner. I represent Select Milk 12 Producers. Thank you for coming to testify.
 - A. Thank you for having me.
 - Q. Did you participate in both of Dr. Stephenson's most recent surveys?
 - A. No. I believe I stated that at the start, that I did not participate in them, and it was not because of a not wanting to, it was simply my fault. Didn't get it -- didn't get it tolled over to the controller in time to get the numbers sent in, so I take full responsibility for that. And that's why we tried to follow along Stephenson's approach as closely as possible to get our numbers.
 - Q. I thought I heard that, but I just wanted to make sure. So thanks for clarifying what I didn't hear correctly.
 - A. Thank you.
 - Q. In your -- and I -- first of all, I appreciate how



much data you have chosen to share with us. You obviously know you don't have to do that, and some folks have and some folks haven't. I think it is helpful to have the information, so thank you.

And I'm looking at page 5 of your statement. And I'm pretty clear what goes into the Feta category. But I know Mr. Rosenbaum asked some questions of you, but if you could go through, what's in the category of other cheddar and jack? I think you mentioned some cheeses, but I want to make sure I have them correct.

- A. We probably do about 40 different varieties of other cheeses, everything from Asiago, to Fontina, to Parmesan, to Romano, on just the hard cheese sides of things, along with Monterey Jack, Queso, and in the Monterey Jacks we'll do a number of different flavored cheeses. It's important for us to do this because, as I stated earlier, if we were just a colored cheddar cheese manufacturing plant, we could not possibly -- could not possibly survive with the Make Allowances what they are as of right now, so we need to go and invest into -- or diversify into other specialty products.
- Q. So -- and I'm -- I am not a cheesemaker, certified, master, or otherwise. Cheddar is both a style of cheese and a process of cheese making, is it not?
 - A. That is correct.
- Q. So when you say "other cheddar," those are cheeses made with the cheddar processing, but they are not cheddar cheese, correct?



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Q. Great. Now, you mentioned the number of styles you make, and I have seen some of them on your website while you were testifying, too, and I need to try some of them.

That changeover process for making all those different styles, can you describe for us what goes into that?

A. Well, there's certain things that you can do depending upon you can start out, say we're not making -if we're making a colored cheddar, we're going to be on colored cheese all day, because once you have put an auto seed into coloring into that first vat and that first vat is orange, you are going to be making orange cheese the rest of the day, you know, so that's just a given.

You may go at the end of the day, maybe making a marbled cheese where you are going to mix a color and a Monterey Jack cheese together or something like that, or maybe a flavored cheddar, but you are going to be staying on that all day long.

If you are making a white cheddar cheese, say the East Coast New York-style type white cheddar cheese or something like that, you may follow that with a pizza cheese or a Fontina or something else that maybe have



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different flavor profiles, and then you may end up finishing your day with a cheese that has like a condiment in it, like a horseradish or a pepper jack or, you know, a case of, let's see vegetable, a number of different varieties.

- Q. How many different styles of cheese do you think you can make a day on that cheddar line?
- A. You can probably get four to five, depending upon the varieties that you are doing. Some are certain -- I mean, if you are going to make a horseradish, you are going to make a pepper jack, or something with a condiment, once you go to that style of cheese, you are done. That's what you are going to be making the rest of the day.

But before that, maybe you can make a Monterey Jack, and maybe you can make a Fontina or something after that. But some of the -- especially the flavored programs, once you get to that cheese, you are going to be done all the way until you wash.

- Q. Does your family supply milk to the plant?
- A. Yes, they do.
- Q. Do you source from other farms as well?
- A. Yes. All of our farms are direct farm ships that we have. I mean, so all of our farms that the 200 -- just about 200, I just use that number as an example, but they are all farm family independent-owned farms. We run our own milk trucks picking up all of the milk.
 - Q. Do you pay them the federal price?



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- A. We pay by the Order 30, correct. We're governed under Order 30 is where the Federal Milk Marketing Order that we are under.
- Q. When it's economically advantageous to you, do you depool the milk?
 - A. Yes, we do.
 - Q. Do you share those proceeds with your patrons?
- A. Yes, we do.

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- Q. I think it was on your website, that you actually have the largest -- or the oldest cheese making facility in the state of Wisconsin?
- A. No, not in Wisconsin, but in Wood County, Wisconsin. The original plant that we're at right now is 125 years old. The original facility burned down, and of course some of the old wood buildings have from years gone by, but it was rebuilt onto that same and it's been added on and -- and it's pretty much maxed out to what we can do now.
 - O. And sorry to hear about the fire but --
- 20 A. That was a hundred years ago, so I didn't know 21 much about it.
 - Q. Well, we have heard too much testimony this hearing about plants and fires, and -- and it's devastating. But how -- when was the fire and when did you rebuild?
 - A. Oh, that was -- that fire had to be probably back -- the plant was built in 1885, so I would assume the fire was probably around the late 1890s to 1900, so it's



been quite a while.

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- Q. And over my career I have seen some old facilities that just do a fantastic job, and it sounds like yours is one of them, but I also imagine with a plant footprint that's that old there are certain inefficiencies because of layout and things that -- that would not happen if you were to build a brand new facility. Would that be accurate?
- A. That is correct. That's why we are asking about that the price of 40-pound block be across the board, not just to the super -- or as they refer to the deadly efficient plants of the West, so -- so that other facilities can still survive. Because if you don't have other facilities to buy that milk from that producer, you are going to get to a monopolized state. And at that point, you wouldn't have an Order 30, because they would govern exactly what you are going to get for milk.
- Q. I imagine you might lose some of the artisan techniques and some of the unique cheeses a plant like yours makes, too, correct?
 - A. That is correct.
- Q. For your cheddar processing, what kind of vats do you use? Are they open, horizontal, vertical?
- A. We use what's called a Damrow Double-O vat. And then our cheese from there goes onto a finishing table.

 And from there it goes into the block formers.
- Q. For as long as you have been working at the plant, has the -- has the style of cheese been pretty constant



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- A. No. When we were younger, it was strictly a colored cheddar facility. When we came back in the late '60s up until probably the mid-'70s, it was simply a colored cheddar cheese plant.
- Q. Was it in the '70s and '80s then that you started making more of these specialty artisan cheeses?
- A. We started to move into some of the other things that were able to make it to the point of where we could survive a little better in the industry, correct.
- Q. So it's been a long time since the best business model for you was to just crank out 40-pound cheddar blocks?
 - A. It has been a long time, yes.
- Q. I know you have been here a couple days. I don't recall if you were here when Agri-Mark testified about their cheese producing.
 - A. No, I was not.
- Q. Okay. One of the things that they testified about is that they will make 40-pound blocks and depending on the quality of the output or whatever, they will select the highest quality cheese for aging to be marketed as Cabot cheese and the rest goes to a commodity market.

Does your plant do anything similar in terms of segregating output for different markets?

A. What we try to do is produce cheese to what our customer is looking for, so we try to be defiant to whatever our customer wants. We try to make sure if -- in



- Q. So your preference is you are making cheese to order, correct?
 - A. Correct.

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- Q. Do you get a lot of orders for just straight unflavored 40-pound yellow cheddar blocks?
- A. Yes. We probably do. As I said, 27% of our cheese is that way, straight colored cheddar, 40-pound blocks.
- Q. On your your website you -- there are some cheeses that are on here. There's, for instance, a smoked cheddar cheese in various flavors, a some -- some hot cheddar cheeses, Carolina Reaper and Scorpion and others.

Would those types of cheeses be included in your the category of yellow cheddar in your page?

A. No, they wouldn't. The only thing included in the yellow colored cheddar cheese is any of the cheese that needs to be reported on the NASS survey is the only cheddar that's reported into the colored cheddar side of the 27.25%.



| Q. | You a | also, | on | your | websi | te, | say | that | you | offer | your |
|--------|----------|-------|-------|--------|---------|------|-------|------|-------|-------|-------|
| block | cheeses | s in | 40-p | ound | block | s, î | 10-pc | ound | print | s, 5- | pound |
| loaves | s, 2.5-r | ound | l miı | ni-loa | aves, a | and | 1-pc | ound | chunk | s. | |

Is that for -- or anything other than 40-pound blocks, would that be included in the other cheddar category?

- A. No. This would -- that would be -- you are talking about cheese that's offered in a retail section. So we would ship those 40-pound blocks that we manufacture to a cut-and-wrap operation who would go and put those -- and cut those into the styles that you had asked for, the 10-pound loaves, the 5-pound prints, the 2.5-pound chunks. That would be an added cost. That has nothing to do with the manufacturing costs of our cheese.
- Q. And the underlying cheese, though, would be in your yellow cheddar category on your breakdown?
- A. None of that would be. That would -- that would just be the original cost of producing the 40-pound block. It has nothing to do with the underlying costs of doing the 10-pound prints or anything like that. That's an added cost on later from there.
- Q. Okay. And so I think I know what you are saying, but I want to make sure I'm clear about it.
- If I wanted to buy from you 5-pound loaves, the cheese that I bought from -- from you, would that cheese be included in the category of colored cheddar or other cheddar on your cost breakdown?
 - A. If it was an original block of colored cheddar,



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the cost of the colored cheddar would be included there, the cost of the sale of the colored cheddar. But the cost of conversion -- of converting it to -- the overage that you would pay to have it converted to the 5-pound loaves would not be included into that, nor would any of the labor or anything.

- Q. So you would be selling it -- you wouldn't be selling it to me as a 40-pound block, you would be selling it to me as a loaf, and there would be costs for the cut-and-wrap.
 - A. That is correct.
- 12 Q. Okay. Great.

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Of the cheese that's listed in your -- as colored cheddar on your breakdown, about how much of that is actually sold as a 40-pound block reportable to the NDPSR?

- A. All of it.
- O. All of it.
- A. All of it.
- O. So if I'm buying your 10-pound loaf --
- A. We have to report that we made a 40-pound block of colored cheddar. Now, if you have pulled that out of your inventory to show that it went to a cut-and-wrap, you are paying the overage over that colored cheddar to get your piece into the size that you want.
 - Q. So who -- so you sell it as a 40-pound block?
- 26 A. Correct.
 - Q. Okay. And then if I'm buying 10-pound loaves, that -- do I get a separate invoice from you or the



cut-and-wrap operation for the conversion?

- A. No, the cut-and-wrap operation will bill back to us, who will make it one simple place for you to run your bill to, will be directly to you, but there will be included -- the cut-and-wrap operation will be included into that price.
- Q. That's very helpful to understand that. Thank you.
 - A. Okay. You're welcome.
- Q. You have a vat summary on here, and this is page 7.
 - A. Okay.

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- Q. At the very top there you have vat summary. It says yield per hundredweight, 10.5%. Is that really like 10.5 pounds? Or how do you calculate 10.5%?
 - A. What it is, is we have excellent farms. We have very good solids, very good butterfat, simply due to the genetics that they have, the food rations and things that they have from our farms. So on an average, we are generating a 10.5 yield on our cheddar, which means that for every hundred pounds of milk, we should be able to retain 10.5-pounds of cheese.
 - Q. So, yeah. I think I have seen it both ways where somebody will say, I get a 10.5 pound yield, or a 10.5%.
 - A. Oh, no. 10.5% means that -- what that means is out of that 45,000 pounds of milk, that's where they are getting that 4,725 pounds of net cheese out of that vat.
 - Q. Very good.



What type of rennet do you use?

- A. We use what's called a Mucor miehei, or it's -it's a rennet that is plant-based or grown from a plant,
 simply, because we do some organics, things like that, so
 we can't use a true calf rennet, which would be something
 that would come from a calf's stomach, which is what
 rennet traditionally is from. This is a grown-up rennet.
 So we buy it from one of our supplies.
- Q. Does that particular rennet come with any -- any claims that it helps to increase the amount of butterfat retained or anything like that or increase the yield?
- A. No. I mean, all rennets will tell you the clotting ability that they have, but this one does -- it isn't like it's a simple claim that said that if you use my rennet -- well, any good salesman will tell you, if you use their rennet, it's going to produce more cheese than the other person's rennet. That's going to be a given.

 But, no, it doesn't make any claim to that.
 - O. Okay.
- 20 MR. MILTNER: I think those are all the questions
- 21 I had. Thanks again.
- 22 THE WITNESS: You're welcome.
- 23 THE COURT: Further questions?
- 24 CROSS-EXAMINATION
- 25 BY MS. HANCOCK:
 - Q. Good afternoon, or --
 - A. Good afternoon -- or good morning.
 - Q. Good morning, Mr. Heiman. Still not quite there



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So I just wanted to make sure that I understand some of what you have already talked about.

So we have -- you have just over 15 million pounds of 40-pound blocks of the colored cheddar that was produced in 2022; is that right?

- A. That's correct.
- Q. Is this about an average amount of production that you would expect in other years as well?
- A. This is pretty close to average, yes. We try to run our plant pretty efficiently with the fact that we run full days Monday through Friday and a little bit of a shorter day on Saturday, try to take Sunday off.
- Q. Okay. And has your production -- do you run at capacity, with those hours?
- A. Yes, we do. With the fact that the milk volume in our area is such that we need to run at production to use up all of our milk.
- Q. Okay. And you have not had any issues in -- in milk supply?
- A. No, we haven't. We have -- as I said, we have a fantastic group of farms that we get milk from, and so we have been very fortunate.
- Q. So it's about a third of the production that runs through your facility, maybe just a little under a third?
- A. Yeah. Between a quarter and a third, correct, would go into the cheddar side, correct.
 - Q. Okay. Your overall operation for processing



- A. I would say we're probably on the smaller side of processors when -- you know, we, process approximately 1.7 million pounds of milk a day. I don't know what the number would be for a Glanbia or a Hilmar, but it's probably maybe eight to ten times that amount. And I don't know their numbers, but I would say that they are, the larger plants are certainly a lot larger.
- Q. I think what you're producing in about -- in -- for each year, Glanbia's producing in less than a month.

 Does that sound about right?
 - A. That's sounds about right. Correct.
- Q. Okay. And you would agree with me that there's some efficiencies that are gained when you have an operation that can produce in that volume of quantity that we just talked about with Glanbia; is that right?
 - A. Exactly.
- Q. And I think you had talked about with Mr. Miltner that in some of your lines you are changing out the product that you are producing four or five times a day depending on what you are producing through there?
- A. That's -- the goal is to be able to do that as quickly as you can, the most efficient way that you can, to get the most return on your processing.
- Q. Okay. And it would be more efficient if you had enough volume that you could have one line that just runs one product at all times.



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- A. Sure. That would be fantastic if you had that. In a real world or in a perfect world, yes, that would be great.
- Q. And you understand that the Make Allowances that we're looking at or considering here are designed to capture the cost of manufacturing those products for all of the different types of manufacturers who were subjected to the Federal Order system?
- A. That is correct, the large and the small. So you are looking at, you know, the super efficient, or deadly efficient person that can do it for \$0.22 a pound, to the person that's doing it for \$0.32 or \$0.33 a pound.

Your processors -- or your producers need all of these facilities running in order to sell their milk product. And the big thing that you need to have is you need to produce something that the end consumer is going to want and going to buy. If you don't have that, then you don't have a market, and you don't have a need to buy milk.

Q. And I just love that Mr. DeJong's deadly efficiency just lives on.

And if you were the one in the decision-making seat, how would you set a Make Allowance that would account for plants such as yours that would be on the smaller side and running multiple different types of products, and other plants like Glanbia, for example, that might be deadly efficient, and doesn't have to -- doesn't have to change out product lines and has dedicated plants



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and all the other things that they can build in their modern technologies. How would you weight those?

- A. That's a very tough question, and that's why we come to the people with USDA and present our information to them and have their expert analysis go about putting these numbers together to make it the most efficient for every plant to survive and thrive.
- Q. And you have family members that you mentioned are --
- 10 A. Correct.
- 11 Q. -- are dairy farmers?
- 12 A. Yep.

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- Q. And so you -- you have -- and I think maybe a little touched by the struggles and the balance that you have to try and reach; is that fair?
- 16 A. Exactly.
 - Q. And you understand that many of the cooperatives are in similar positions where they process on one side, and they have an ownership that is representative of the dairy farming community that has struggles on their side as well?
- 22 A. That's correct.
 - Q. And that's the balance that we have to strike in making sure that we set the Make Allowance at the right level; is that fair?
 - A. That's fair.
 - Q. And would you agree with me that it's important that we don't set the Make Allowance too high?



- A. It's important that you don't set it too high. It's important that you don't set it too low.
 - O. And --

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- A. There's a -- a flip side to everything. There's an action and reaction to everything. And, again, that's where I push it over on to USDA to take the information that they gather and to utilize that information to an algorithm and come up with a good Make Allowance that is good for everyone, including the dairy farmer.
- Q. And you can appreciate, or maybe even empathize, with the burden that that puts on them in order to make sure that they hit that right balance, that it's not too low and it's not too high?
 - A. That's correct.
- Q. And you understand that they don't have a black box to put this algorithm into to pop out a magical number; is that fair?
 - A. No one has that. You are correct.
- Q. And do you agree that it's important that we have accurate information that's reflective of the processors actual Make Allowances?
- A. That's why I want and had our controller break down things and share as much information as I did today of what our processing costs are, so that you have a true and accurate account of what it costs to produce 40-pound blocks at Nasonville Dairy.
- Q. And I appreciate that, because I can -- I can tell that it's a considerable amount of work for your team to



be able to put that information together.

You understand that National Milk's position is that it wants to increase Make Allowances as well?

- A. That's correct. They understand that that -that's their also -- I mean, I can understand their
 platform with the fact that they understand that the
 processors need to survive if they want to sell -- if they
 want to sell milk.
- Q. And you understand that they have also -- while they want to increase Make Allowances, they want to make sure that it's not set too high as well?
 - A. I understand their side, correct.
- Q. And -- and I think we have already talked about that, but you agree that you don't want to set them too high either?
 - A. Correct.
- Q. And you understand that National Milk is advocating for a mandatory audited cost survey that would allow the USDA and the industry to have full confidence in the numbers that are used to set Make Allowance.
 - A. I believe that's true.
- Q. And do you agree that you also would like to have a mandatory audited cost survey so that your nephews and your brothers that are involved in the dairy farming industry can have confidence that the Make Allowance numbers that are set are also accurately set?
- A. My feelings can't be portrayed as what industry would like to see or like to do, so I will have to defer



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- Q. And I don't want you to speak on behalf of the industry. I just want you to speak on behalf of Mr. Heiman today. Do you agree that you would like to have an audited mandatory cost survey so that you could have confidence that the numbers that are used to set Make Allowance accurately reflect what's in the industry today?
 - A. I'm not sure I want more regulation. So, no.
 - Q. So you don't want a mandatory audited cost survey?
- 11 A. I don't believe it will happen.
- 12 | Q. Why not?
 - A. It's just my answer. That's just my belief.
- Q. And let's assume that it -- it is an -- is an option for it to actually happen, and there's an option for USDA to be able to use audited mandatory cost surveys to set Make Allowance. Would you agree with me that that would be a more accurate way to set Make Allowances?
 - A. For one type of cheese.
- 20 Q. And that would be for cheddar?
- 21 A. Correct.
- Q. Okay. And that's actually what we're looking at, in any -- any change that's being proposed, is that it would be -- it would be set for just cheddar cheese?
 - A. I --
 - Q. Is that right?
 - A. You made a statement. I didn't know where you were leading there.



- Q. Well, they always end with a question mark.
- 2 A. Oh.

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- THE COURT: I think she's asking you to confirm that that's so.
 - MS. HANCOCK: Right.
- 6 BY MS. HANCOCK:
 - Q. Is that right?
 - A. That's what you are referring to, correct.
 - Q. Even under IDFA and WCMA's proposal, you understand that you are proposing a Make Allowance that's just set based on cheddar cheese prices; is that right?
 - A. That's what National Milk is promoting -- is -- if that's what you are asking me, if National Milk is asking to do that, that is -- I believe that is their stance.
 - Q. And that's also what IDFA and WCMA is offering as well --
 - A. Correct.
 - Q. -- is just a different price, but based still on just cheddar cheese?
- 20 A. Correct.
 - Q. And that's actually in your Exhibit 203, that's what you calculated, and then you did a lot of extra work to make sure that your allocations were attributed to just your cheddar cheese?
 - A. That is correct.
 - Q. So if everybody's in agreement that we're going to price it based on cheddar cheese, would you agree with me that the best way to do that and to ensure the accuracy



would be to have a mandatory price survey?

- A. That would be something you would have to pool all the plants to do. So that would be -- it would be an intriguing and a boatload of work for USDA.
- Q. But it would make the information more accurate; would you agree?
- A. If everyone had participated and -- had I had not forgotten and had everyone participated in the Mark Stephenson survey, it would have been the same situation if you are asking that, correct.

MS. HANCOCK: Thank you so much for your time today. I appreciate it.

THE WITNESS: You're welcome.

REDIRECT EXAMINATION

BY MR. ROSENBAUM:

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Q. So the -- Steve Rosenbaum for International Dairy Foods Association.

The total cost that you have calculated for making cheddar cheese if you are -- for your company is \$0.3226 a pound; is that correct?

- A. That's correct.
- Q. Now, are you aware that under the proposals by the International Dairy Foods Association and the Wisconsin Cheese Makers Association, the Make Allowance for cheese would be raised to \$0.3006 per pound?
- A. Over a four-year period. That would be a step-in approach. I'm giving you real numbers from 2022 here.

 You're looking at the total increase would be over four



- years. So, therefore, four years from now we'll be close to what it costs me today.
 - Q. So just -- and you're ahead of me.
- So -- but IDFA is proposing a staggered implementation of an increase in the Make Allowance, correct?
- 7 A. That's correct. And WCMA follows along with that 8 same platform.
- 9 Q. And even in year four, which is the January 1,
 10 2028, number, that number rises to and stops at that point
 11 at \$0.3006, correct?
- 12 A. That's correct.

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- Q. So you will still not have your cost of manufacture covered even five years from now?
- 15 A. Correct. We still will not -- it will be closer,
 16 but we will not have all of our costs for producing
 17 colored cheddar cheese.
 - Q. Okay. And the National Milk proposal is to increase the Make Allowance to \$0.24 from its current \$0.20. Are you aware of that?
- 21 A. That's correct.
- 22 Q. And does that leave a considerable gap between --
- 23 A. That does.
- Q. -- between -- between your cost of manufacture and their proposed Make Allowance?
- 26 A. Yes, it does.
- Q. If you take -- as I think this is a given, that the audited mandatory surveys in California indicated that



| 1 | back in 2016, seven years ago, it already cost \$0.24 to |
|----|--|
| 2 | make cheddar cheese. That's a published number. It's in |
| 3 | the record. |
| 4 | Have you experienced cost increases since 2016 in |
| 5 | your manufacturing of cheddar cheese? |
| 6 | A. As everyone has. I mean, you it doesn't matter |
| 7 | what industry you are in, the farming side, the cheese |
| 8 | making side, the processing, the food truck, the trucking, |
| 9 | everyone has seen great examples of increase in costs. |
| 10 | MR. ROSENBAUM: Okay. That's all I have. Thank |
| 11 | you. |
| 12 | THE COURT: Okay. Anyone else? |
| 13 | I mean, that was redirect, but I think it's |
| 14 | appropriate given that AMS should have as much from other |
| 15 | people before it's their turn to cross, and no one |
| 16 | objected. |
| 17 | MS. TAYLOR: Thank you, your Honor. AMS does have |
| 18 | a couple questions. |
| 19 | THE WITNESS: Certainly. |
| 20 | CROSS-EXAMINATION |
| 21 | BY MS. TAYLOR: |
| 22 | Q. Thank you for coming to testify today. |
| 23 | A. Thank you for allowing me to be here. |
| 24 | Q. You mention you have 200 farm suppliers. |
| 25 | Are those independent shippers? |
| 26 | A. Yes, they are. |
| 27 | Q. You talked about how Nasonville pools milk but |



will also choose to depool milk when it is financially

advantageous to do that. And you did talk about how when the company does that, you do share some of that revenue with your producer suppliers; is that correct?

A. Correct.

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- Q. In a normal month, there's been some discussion about how are producers being impacted by -- as people are terming them -- inadequate Make Allowances, so I wanted to hear a little bit about how you're able to cover what is -- based on what you have presented here, are Make Allowances that don't cover your cost of cheddar and maybe how that's reflected in your producer pay prices for your direct shippers.
- A. Well, we're in a direct competition with a number of other dairy plants in Central Wisconsin, so we certainly need to pay a very competitive price to hang on to our farms, because if they are not shipping with us -- although all plants are getting pretty full, but they -- they have the ability to ship their milk where -- we don't hold a contract with any of them. So if they want to call me tomorrow and say they want to ship their milk somewhere else, they certainly can. So our best way is having a good sales staff that can go out, sell our product, and get us a good return on to our cheese, so that we can continue to be competitive in the market for the milk supply.
 - Q. Okay. And do you pay premiums to your producers?
- A. There are premiums. I can't tell you for sure what they are, but I do know that there are premiums to



Q. Thank you.

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And have you seen -- well, you probably don't know the answer to over the last few years have those declined?

- A. I would say that they probably have as -- as most producers -- most dairy plants have.
- Q. And for your 40-pound blocks, as I understood it with your conversation with Mr. Miltner, you will sell those to entities, but they then go on and get further broken down to whatever more retail sized packaging is requested; is that right?
- A. They can, but a lot of them will sell out directly to another -- another facility or another processor who may shred it and it may end up in the grocery store under their label. It all has traceability back to our dairy plant, but it all -- it may go to another customer who is going to process -- or put it into a slice or a cut-and-wrap operation.
 - Q. Okay. Okay. Thank you.

And when you sell your cheese, how do you look to price your cheese? Do you price off the CME block price or --

- A. Basically, just about everything is based off of the CME block price, correct.
- Q. I just had a quick question, if you could turn to page of 6 of your testimony. We wanted to understand --



just check on a couple of categories under your processing labor.

For warehouse and loading costs, is that at the end of the production chain, to load up the product?

- A. No. That's actually bringing in raw material from the warehouses.
 - O. Okay.

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- A. And then the other part is just moving the cheese around, you know. You are going to be -- as you make cheese in one section of the plant, your loading people are going to come and grab that pallet of cheese, put it down, take it into the coolers, and situations like that.
 - Q. Okay. That's helpful.

And intake trucking is raw milk intake?

- A. Correct. Yep. And that's why that number is not included at all into the survey because they asked not to include anything with your whey plant, your milk intake, or anything to do with the milk hauling or the Feta production.
- Q. Okay. And I know you don't report whey, but do you list -- and I know your whey costs aren't in there, but I'm just curious what you all do with your whey.
- A. We have an ultrafiltration system and an RO system. So we make 80% -- excuse me -- 55% WPC that we sell in a liquid form. We do not dry any whey. And the same with our permeate is run through an RO system where we produce permeate that's about 18% solids and sold in the liquid form.



- Q. Okay. And my last question -- and Mr. Rosenbaum hit on that a little bit -- under year four, the IDFA proposed Make Allowances would not cover your Make Allowances as you've given us the information for 2022.
 - How are you going to deal with that?
- A. The same way that I'm dealing with it right now in its \$0.12 difference.
 - O. And how is that?
- A. You are going to try and find a type of cheese or an -- almost an artisan type brand where you can probably get a higher return on your cheese, or a higher yielding cheese to create the most amount of income that you can, so that you can continue to survive.
- Q. So put it another way, you will look to make less 40-pound cheddar and more something else?
 - A. In a perfect world, yes.
- 18 | Q. Right.

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- 19 A. But the 40-pound cheddar is still a very good 20 selling item.
- 21 MS. TAYLOR: That's it from AMS. Thank you so 22 much.

REDIRECT EXAMINATION

- 24 BY MR. ROSENBAUM:
- Q. One quick correction on an error introduced into the record by Mr. Rosenbaum.
- The proposed Make Allowance is \$0.284. I don't know where I got the \$0.30 figure from.



| 1 | A. I was pretty excited about going up to \$0.30. I |
|----|--|
| 2 | was just going along with it. I thought I could maybe get |
| 3 | a couple more cents here. |
| 4 | Q. And with that self-correction, but, you know, that |
| 5 | simply further demonstrates that the Wisconsin Cheese |
| 6 | Makers Association, IDFA proposals would not themselves |
| 7 | actually cover all of your current costs of manufacturing, |
| 8 | even as they reach their peak in 2028, correct? |
| 9 | A. Right. It would it would rely on us to become |
| 10 | a more deadly efficient plant basically. |
| 11 | MR. ROSENBAUM: Your Honor, I would move Hearing |
| 12 | Exhibit 203 into the record. |
| 13 | THE COURT: Objections? |
| 14 | Exhibit 203 is made a part of this hearing record. |
| 15 | (Thereafter, Exhibit Number 203 was received |
| 16 | into evidence.) |
| 17 | MS. TAYLOR: Your Honor, if I could, because I'm |
| 18 | trying to keep track of time as well, and I recognize we |
| 19 | have one more witness to get on this morning. So what we |
| 20 | are doing is notifying the dairy farmers that are |
| 21 | scheduled to testify today that we will start a little bit |
| 22 | late, at 12:15, to help us maybe try to get through |
| 23 | Mr. Wills now and still take a small lunch break. |
| 24 | So if that's okay with everybody, we'll |
| 25 | THE COURT: Raise your right hand. |
| 26 | ROBERT WILLS; |
| 27 | Being first duly sworn, was examined and |
| 28 | testified as follows: |



| 1 | THE COURT: Your witness. |
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| 2 | DIRECT EXAMINATION |
| 3 | BY MR. ROSENBAUM: |
| 4 | Q. Good morning, Mr. Wills. |
| 5 | Do you have before you the document that's marked |
| 6 | as Exhibit WCMA-3? |
| 7 | A. I do. |
| 8 | Q. And is that your written testimony? |
| 9 | A. Yes, it is. |
| 10 | MR. ROSENBAUM: Your Honor, I'd ask that it be |
| 11 | marked with the next Hearing Exhibit number. |
| 12 | THE COURT: Yes. WCMA-3 is marked 204 for |
| 13 | identification. |
| 14 | (Thereafter, Exhibit Number 204 was marked |
| 15 | for identification.) |
| 16 | BY MR. ROSENBAUM: |
| 17 | Q. Mr. Wills, given the time pressures, I'm going to |
| 18 | limit my questions of you, except that you have told me |
| 19 | that you have a background that doesn't appear on the |
| 20 | document. Can you just tell us your educational |
| 21 | background? |
| 22 | A. To the degree it's relevant, I have a Ph.D. in |
| 23 | economics and a law degree, and worked for Economic |
| 24 | Research Services of USDA, as well as the University of |
| 25 | Wisconsin, before I decided to become a cheesemaker and |
| 26 | follow my passion. |
| 27 | Q. Please read us your statement. |
| 28 | A Do you want my address and all that kind of stuff? |



1 It's in the written part, but I'm just following the 2 pattern here.

- Q. And you're being a lawyer now, too. Yes, please, do that.
- A. Robert Wills, R-O-B-E-R-T, W-I-L-L-S. The address of our factory is E5904 Mill Road, or Post Office Box 185, Plain, Wisconsin, 53577.
 - Q. Thank you.

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- A. Sorry about that.
- 10 Q. No, no apology.
- 11 THE COURT: I appreciate that.
 - THE WITNESS: Today I want to discuss how

 Make Allowances impact farmers who sell milk to companies

 like Cedar Grove Cheese, and why higher Make Allowances

 are beneficial for us and for the dairy market.

Attached is a spreadsheet showing the cost of production for cheddar at Cedar Grove Cheese. The data were not included in previous compilations. Our costs at about \$0.77 per pound are on the highest end of those discussed in these hearings.

And to be clear, we are not advocating at this time for our cost to be a national standard for Make Allowance. We are able to recoup some of our higher costs by providing better products and services than most commodity cheddar.

Cedar Grove Cheese has been operating since 1878. For most of that time, cheddar has been part of our repertoire. We currently purchase milk from around 30



farms. Cedar Grove Cheese was one the first small factories to participate in the Federal Milk Marketing Order. We installed a Grade A receiving station and provided pooling services for several other small plants to qualify their milk. However, in the last couple years, we had completely left the market order, and this year we have been pooling milk from less than half of our producers.

In these hearings, as in the -- as in the past, academics and advocates have been discussing how to set the Make Allowance for commodities used in milk pricing formulas. Typically, the appropriate value for the Make Allowance is viewed as one that exceeds the cost of production of processors of some percentage of the product, for example, 80% of cheese.

Companies with costs below -- costs above that value will either fail, add enough value to their products or services to make up for their higher costs, or leave the market order and pay their suppliers a lower price. If the 80% is made by 35% of processors, it suggests that the remaining 65% percent would be doomed to fail or underpay their producers.

Over the years, this has led to significant increases in market concentration and fewer sales opportunities for farmers.

Most testimony on Make Allowances describe a zero-sum game. Any addition to Make Allowances is viewed as reducing returns to farmers. A higher Make Allowance,



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one that covers the cost of more processors, is presented as taking money away from farmers.

This is a false trade-off. At market prices the market order pool only generates a certainly amount of total product sales. The formulas are complicated, but ultimately, the money available to pay farmers is no more than the value of those sales less the cost of making the products. The market order Make Allowances do not determine either consumer purchases of dairy products or the cost of producing those goods.

If the Make Allowances do cover the cost of production, and processors either pay -- did I miss a word there?

- O. I think your word is do not.
- A. -- do not cover the costs of production, then processors either pay less than the market order minimum price or they stop producing.

Market order rules including Make Allowances are only about who gets the class premiums. Make Allowances do not produce value.

I remember when Make Allowances were more than adequate. We paid farmers over-order premiums. Recently when Make Allowances have not been close to covering the cost of production, many proprietary processors, like Cedar Grove Cheese, have been forced to depool some or all of their farmers' milk. Economics forced us to choose between participating and losing money.

As I said at the top, we do not need market order



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formulas to cover all of our costs for us to participate. However, when Make Allowances are too low, and when other estimates of revenue in the formulas such as the value of whey are unrealistic, then we are forced to take our farmers' milk out of the order.

Under normal conditions with positive pool draws, no processing company wants to depool its farmers' milk. Depooling gives up those farmers' share of money generated from class premiums, the tax on consumers of milk. In that case, the pool money goes to competing firms that are then able to keep their — that are able to keep their milk in the market order, and those competing firms get an advantage selling products and attracting farm patrons.

In my earlier request for a market order amendment to be included in this hearing, I pointed out the anticompetitive effect of particular FMMA rules. Those rules on reblending and permitting deductions only by cooperatives enable those firms to receive pool money while paying less than the market order minimum.

Proprietary firms, meanwhile, must pay each and every farmer a higher price. Although USDA decided that the market order administration does not have the authority to correct that inequity directly, setting high Make Allowances is a different way to help meet your statutory obligation to protect competition.

If Make Allowances are high enough, most processors will be able to cover their processing costs and pay the minimum prices, then all farmers associated



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with those processors can benefit from the value of the market order pool.

As has been occurring, market competition for milk will move extra dairy product value to farmers. With adequate Make Allowances to cover costs, companies like Cedar Grove Cheese will be able to qualify more of their milk and their farmers will share in the pool.

Lower Make Allowances mean the pool draw will go to some other farms. Farmers will not receive equal treatment under the order and competition for dairy products will deteriorate further. Thank you very much.

Q. Thank you very much.

MR. ROSENBAUM: The witness is available for examination.

CROSS-EXAMINATION

BY MR. MILTNER:

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- O. Good morning, Mr. Wills.
- A. Good morning.
- O. Ryan Miltner, I represent Select Milk Producers.

On the first page of your statement, fourth paragraph, there's a sentence which reads, "Typically the appropriate value for a Make Allowance is viewed as one that exceeds the cost of production of processors, of some percentage of the targeted product (e.g., 80% of cheddar cheese)."

With that parenthetical, are you suggesting that that's where the Department should set the Make Allowance mark?



- A. No, it's just a number that has been used --
- Q. Okay.

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- A. -- in the -- I believe in this hearing and in other situations, yes.
- Q. And on the second page you have a line that says, "I remember when Make Allowances were more than adequate."

Do you remember when that was?

A. Well, we were able to pool milk up until about four years ago or five years ago, when it became -- when we took most of our milk out of the pool, because there wasn't a value in being --

(Court Reporter clarification.)

THE WITNESS: When there wasn't value for us in being in the market order.

So to clarify that, you know, we have to balance out whether the -- whether paying the minimum price that's required by the market order is possible while -- without losing money, and whether there's sufficient return in the PPD to be -- to justify staying in the -- in the -- to justify staying in the order and getting that money for our producers.

So when either the Producer Price Differential is small or -- or when the cost of -- when the revenues from the market order that -- from sale of the products in the market order are not sufficient to cover our costs, then -- then we have to leave.

- BY MR. MILTNER:
 - Q. And that turned, for your plant, your business,



sometime four or five year ago you think?

- A. That's when we made the decision that we were not able to be in, yeah.
- Q. Okay. So the next paragraph down begins, "Under normal conditions, with positive pool draws, no processing company would want to depool its farmers' milk."

And if I could add my understanding of what you are saying there, is that when there's a strong positive difference between the blend price in Class III, that positive difference allows you to pay your patrons more than if they were not participating in the order, correct?

- A. That's correct.
- Q. So there's a proposal in this hearing that would reduce the Class I differential by \$1.60, making the Class I differential \$0.20 in your part of the world.

What would that do to your ability to participate in the pool and attract producers to your plant?

A. The only reason for the market order is to distribute the -- the tax money, the surplus revenues from -- from the premiums. And so, you know, basically all the rules are determining who gets that money. I -- if there is no pool there, then the only thing -- then the only service the market order is providing is, is information, which is valuable. So, you know, I'm not really here to testify on the Class I, but -- but personally, if the -- if the pool money disappeared completely, it would create a more even playing field for all of us.



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- Q. Would it make it easier or harder for you to attract milk to your plant and pay your producers if the Class I differential were \$0.20?

 A. So if there were -- if there were not a pool draw for the people who are competing against me, it would -- it would make it easier for me to compete.
 - MR. MILTNER: Okay. Thank you very much.

THE COURT: Anyone else other than AMS?

THE WITNESS: Good morning.

CROSS-EXAMINATION

11 BY MS. HANCOCK:

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- 12 Q. Good morning.
- 13 A. It's still morning, right.
- 14 | O. I keep looking. It's not moving very fast.

So thank you for being here. I just have a couple of questions.

You're a small cheese processor; is that right? Would you characterize yourself as small?

- A. There are smaller ones.
- Q. Okay. On the spectrum of sizes of processors --
- A. Certainly in terms of people who are testifying in these hearings, we are probably the smallest, yes.
 - Q. And -- and you just heard me ask the prior witness the question about efficiencies in operating large plants versus small plants.

Do you remember that?

A. What -- is there a question? I -- I -- I know you had that conversation with him, but I may have been out of



the room. I'm not sure.

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- Q. Okay. Is it fair to say that in operating a small plant there's oftentimes less efficiencies than in operating the larger plants?
- A. There are lower efficiencies if you are only looking at costs. There's also much more in terms of flexibility and quality. And so all sizes of plants, I think have things to contribute to the market.
- Q. And I was doing a little bit of online research, and it looks like that flexibility and the quality you talk about is actually one of -- one of the things that your brand is built on; is that right?
 - A. That's correct.
- Q. And, in fact, you're award-winning in your cheese making, I saw.
 - A. We do pretty well on awards, yes.
 - Q. Okay. And that's -- those premium products are reflected in the processes that you've built into your plant operations; is that right?
- 20 A. That's correct.
- Q. And in order to produce those premium quality
 levels, it requires a higher cost of production; is that
 fair?
 - A. Yes.
 - Q. And have you had that same brand recognition since you joined the operations I think back in the '80s? Has that philosophy stayed the same throughout that whole time?



- A. Absolutely, yes. In fact, we've gone away from commodity cheese production. We have moved more of our production away from commodity cheese production and more into -- into products that take advantage of our experience.
- Q. Experience in making those quality premium cheese products?
 - A. Yes.
- Q. And -- and with that, that has an effect on the cost of your production as well; is that fair?
- A. Yes.

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- Q. So even -- I think on your calculations that you have included here, you have done it on a straight line percentage allocation based on the volume of the products; is that right?
- A. I'm sorry.
 - O. You have done --
 - A. We have allo- -- how we allocated the expenses; is that what you are saying?
- 20 Q. Yes.
- 21 A. Yes.
 - Q. You have done that on a percentage of your total costs commensurate with the volume that the percentage of volume that you produced for cheddar cheese?
 - A. That's true to a degree, although there's some expenses which were -- which are associated with the -- that were excluded because they were, you know, things that go beyond like packaging expenses, and -- and sheep



- Q. Okay. Things that were unique to the non-cheddar products you have already pulled out; is that right?
 - A. Right.

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- Q. But the things for the shared cost expenses, you have just allocated the percentage to cheddar that is commensurate with the volume of cheddar that's produced?
- A. Right.
 - Q. And I just want to --
 - A. And, again, though, I -- so what -- so part of the myth of this whole -- of this whole hearing is that cheddar is cheddar. And so, you know, there are a lot of variations on cheddar, and we have included in the -- in the 23% of our production, those things which would be reportable. But so -- so -- so we do have higher expenses for making cheddar than would be standard for most producers, because we make a different style of cheddar than some other people do.
 - Q. Okay. Appreciate that.
 - And that's what's reflected in the numbers in your chart here?
 - A. Right.
- Q. And just one clarification. If you can turn to page 5 of your --
 - A. Just.



- Q. -- of your statement.
- A. So I scrambled my pages, would you -- could you just tell me where it starts?
 - Q. Sure. It's the general ledger.
 - A. Oh, okay. Yep.
 - Q. Next page over, I believe.

 Do you have the general ledger?
 - A. Yes.

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- Q. And on the comment column it looks like --
- 10 A. Oh, yeah, there's an error there.
- 11 Q. Yeah.
- A. So -- so in order to have comparability -- and we were in -- we benefitted by having Nasonville share their -- their model with us. And so all of the lower part there, if you do the math, it's really the 21.03 is used as a multiplier rather than the 27.25 as the label says, as the comments say.
 - Q. Okay. So just to be clear, you used Mr. Heiman's spreadsheet, but your math is correct, just the comment column doesn't reflect the correct spreadsheet.
 - A. That's correct. Yeah.
 - Q. Okay. And then you say in your statement -- I'm back on page 2. It says, "In June, I made a request for a market order amendment to be included in this hearing."
 - That's the WCMA proposal for Make Allowances? Is that what you are referring to?
 - A. No. When there was first a request for -- for -- for proposals to be included in this hearing, I personally



| 1 | submitted on behalf of Cedar Grove Cheese a request |
|----|--|
| 2 | that that would level the playing field by providing |
| 3 | the same opportunities for for staying in the order |
| 4 | while paying under the market that to proprietary |
| 5 | plants that are available to cooperatives. And the |
| 6 | response that I received was that they did not that |
| 7 | USDA did not have the authority to do that. |
| 8 | Q. Okay. I got confused with that. |
| 9 | MS. HANCOCK: That's all I have. Thank you so |
| 10 | much for your time. |
| 11 | MR. ROSENBAUM: Your Honor, I have been informed |
| 12 | that we perhaps didn't swear this witness in before he |
| 13 | started to testify. |
| 14 | THE WITNESS: We did. |
| 15 | MR. ROSENBAUM: We did? All right. I just wanted |
| 16 | to make sure. Someone sent a text to that effect. I did |
| 17 | not think that was right, but I wanted to would check. |
| 18 | THE COURT: No insult taken at all, I think. |
| 19 | Belts and suspenders on this. If we have to do it twice, |
| 20 | better than doing it no times. Anyway, thank you. I |
| 21 | appreciate that, Mr. Rosenbaum. |
| 22 | Anyone else have questions other than AMS? |
| 23 | Seeing none, Ms. Taylor, I think you are up. |
| 24 | CROSS-EXAMINATION |

25 BY MS. TAYLOR:

- Q. Good morning.
- A. Good morning.
- Q. Nice to see you today.



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- A. Yeah, thank you.
- Q. I don't think you listed in here about the number of employees Cedar Grove Cheese has. And I ask, because we want to get information on small businesses, which for cheese manufacturers is those with less than 1250 employees.

Would you be a Small Business?

- A. We are seriously smaller than that. We have about 30.
 - Q. See you can't get -- seriously small defined.
- A. Yeah.

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- 12 Q. Okay. Thank you.
- And you have 30 farms shipping to you. Is that independent shippers?
- 15 A. Yes.
 - Q. And you talk throughout your two pages about not being able to pay minimums and that kind of influences your decision on whether to pool that milk or not.
- 19 A. Correct.
 - Q. And on the second -- second page of your statement you say that cheesemakers are then forced to take our farmers' milk out of the order.

I could read that statement to say -- when I read that statement, one can infer that you'd actually prefer to stay in the order if you could. Is that a correct --

- A. Yes.
 - O. -- inference?
- A. We would like our producers to have access to the



money from the pool, which we would have to stay in the order in order to do that.

- Q. Okay. When you do depool -- well, what causes you to -- what are the reasons why you choose to depool?
- A. Well, so it has to do with what our -- what our total revenues are relative to the price that the market order would require us to pay. So a lot of it has been -- some of it's been the inadequacy of the Make Allowance, which we're talking about today, and some of it -- a lot of it has to do with whey prices.

So -- so over, you know, in the last year I think there was a -- periods when the attributed value of whey for cheese manufacturers was somewhere in the 2.5 to \$3 --

- Q. Can you talk a little closer to your mic?
- A. I'm sorry. Yeah.

So I think there were periods when the attributed value of whey in the formula was somewhere in the 2.5 to \$3 a hundredweight range. We receive \$0.11 a hundredweight when we sell our whey, after chilling it and after separating the cream off of it. So -- so that has played a big role in determining when we can be part of the market order and when we can't.

- Q. So it's not just the cheese side of the business.
- A. It's not -- it's not just the cheese manufacturing costs, but it's also the way the rest of the formula creates the price that we have to pay for milk.
- Q. Okay. Is one piece of when you choose to depool, when class prices aren't in alignment and under what we



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would term historical alignment?

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- A. When PPDs go negative; is that what you are referring to?
- Q. Yeah, or Class III is above I, or high enough that it would be -- you would have to pay into the pool.
- A. Yeah. I think it's a real disorder in the marketing when farmers supplying cheese plants have to pay money to keep -- to bottling plants and in that -- or to other to other classes. And so it really makes -- I think it's inappropriate for us to keep our producers in the order if they are having to have money deducted from their checks to pay into other classes of milk producers.
- Q. Okay. In those circumstances, do you share any of the money that you aren't putting into the pool with your producers?
- A. We're always paying our producers as much as we can pay them. So by not having to deduct that money from the -- from their checks that would be paid into the PPD, they get more money.
- Q. Okay. So your pooling decision does impact how you pay your farmers?
 - A. Yes.
 - Q. For your 40-pound blocks, you -- so as I read it, 21.03% of your production in 2022 went to 40-pound blocks?
 - A. Yes.
 - Q. And then, what do you do with those -- I don't think that's been covered, and if it has, I apologize -- but do you sell those blocks directly? Do you age some?



1 How does that work on your operation? 2. So we -- so we're not including aged cheese -well, I guess, it -- some may end up being aged. Most of 3 4 that cheese is being produced for other customers, some of whom may use it in producing and shredding in their own 5 6 cut-and-wrap programs or in aging. So we don't really 7 know for sure how much of it, but it's not --You don't keep it and age it? 8 Ο. 9 Well, we keep too much to age, but, yeah. Α. 10 MS. TAYLOR: Okay. I think that's it from AMS. 11 Thank you so much. 12 THE WITNESS: You're welcome. 13 MR. ROSENBAUM: Your Honor, we would move Hearing 14 Exhibit 204 into evidence. 15 THE COURT: Any objection? Exhibit 204 is admitted into the record. 16 17 (Thereafter, Exhibit Number 204 was received 18 into evidence.) 19 THE COURT: Thank you, sir. 2.0 Break for lunch? Half an hour enough? 2.1 MS. TAYLOR: We have -- we have already notified 22 our virtual dairy farmers we would start at 12:15, so I 23 think 12:15. 24 But if we do have parties who have written 25

But if we do have parties who have written statements for those farmers, if you could pass them out in advance, then we don't have to spend time doing that in the moment.

THE COURT: Let's come back at 12:10. That will



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TRANSCRIPT OF PROCEEDINGS September 15, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING



| 1 | FRIDAY, SEPTEMBER 15, 2023 AFTERNOON SESSION |
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| 2 | THE COURT: Let's go on the record. |
| 3 | MS. CLIPPINGER: Thank you very much, your Honor. |
| 4 | Good afternoon. My name is Lucy Clippinger, |
| 5 | L-U-C-Y, C-L-I-P-P-I-N-G-E-R. I'm with Baker & Miller, |
| 6 | PLLC, and I'm here on behalf of Dairy Farmers of America. |
| 7 | THE COURT: Very good. Welcome. |
| 8 | Okay. Are we ready to go otherwise? |
| 9 | MS. TAYLOR: I think, your Honor this is Erin |
| 10 | Taylor from AMS. I think the first one's on deck. One |
| 11 | second. Trying to make sure exhibits got posted online, |
| 12 | too, so I can refer to them. They are online. Perfect. |
| 13 | So I think the first producer we have up is Amy |
| 14 | Penterman. If the team wants to put her on the screen. |
| 15 | THE COURT: I'll swear her in. |
| 16 | Hi, Ms. Penterman. I'm Channing Strother, the |
| 17 | Judge presiding over this hearing. I need to swear you |
| 18 | in. Please raise your right hand. |
| 19 | AMY PENTERMAN, |
| 20 | Being first duly sworn, was examined and |
| 21 | testified as follows: |
| 22 | THE COURT: Your witness, Ms. Taylor. |
| 23 | MS. TAYLOR: Okay. Thank you for joining us, Ms. |
| 24 | Penterman. I think from the list I saw, you are here |
| 25 | representing Edge Dairy Cooperative; is that correct? |
| 26 | THE WITNESS: That is correct. |
| 27 | MS. TAYLOR: Okay. And I believe that your |
| 28 | statement that was submitted online is Edge-9, which is |



1 that correct, first? 2. THE WITNESS: That is correct. That is correct. MS. TAYLOR: I'm noticing on our website we have 3 4 Edge -- I think it got updated and there was an error. So it lists Edge-9, but there's no live link, and I do have 5 6 someone looking into that right now, so it will go live 7 here shortly. But in the meantime, I think you can just read 8 9 your statement in, and everyone will listen, and they can 10 read it later. 11 But if you could first, I guess I should start, 12 spell and -- state and spell your name for the record and 13 give a business address. 14 THE COURT: Excuse me. Do we want to hold the next Exhibit Number for that statement? I don't seem to 15 16 have a copy. 17 MS. TAYLOR: Yes, we're working on that. 18 would be -- that would be great. And I will mark that 19 down, your Honor. 2.0 THE COURT: Okay. So let's -- when we get the 2.1 copy for the record of the statement, that is Edge-9, it 22 will be marked as identification 205. (Thereafter, Exhibit Number 205 was marked 23 24 for identification.) 25 MS. TAYLOR: Thank you. 26 THE COURT: Yes, you may continue. 27 MS. TAYLOR: So if you could state and spell your 28 name and give us a business address.



1 THE WITNESS: Amy Penterman, A-M-Y, 2. P-E-N-T-E-R-M-A-N. Business address, N 13853 Gorman Avenue, Thorp, Wisconsin, 54771. 3 4 MS. TAYLOR: Thank you. And if you could go ahead and give your statement 5 6 for us. 7 THE WITNESS: Hello. My name is Amy Penterman. My husband Sander and I farm at Dutch Dairy in Thorp, 8 Wisconsin. Sander is a first generation immigrant and 9 10 multi-generational farmer with formal records dating back to 1643 in the Netherlands. 11 12 I'm a third generation farmer. In addition to 13 running the farm, I serve as clerk to our local school 14 board, president of the Thorp FFA alumni, 15 president-emeritus of the Dairy Business Association, 16 which is a state trade association in Wisconsin. 17 addition to my role on the farm, I am also a crop 18 insurance agent. 19 We milk 900 cows and farm 1,450 acres, both rented 2.0 and owned. We have 12 full-time employees and four 2.1 part-time employees. Our milk goes to a privately-owned 22 cheese plant in Federal Order 30. We try to adopt 23 innovative practices that are good for our environment, 24 like no-till planting and manure injection as well. Our 25 farm would not qualify as a small business under the 26 definition of the \$3.75 million in annual revenue.



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to be efficient and of size to bring in the next

With three young boys, we are positioning our farm

generation, putting environmental and economic sustainability at the forefront of all of our decisions.

One key aspect of economic sustainability is effectively managing our price risk. As market prices fluctuate significantly in short periods of time, our farm and other farms like it need the effective tools to ensure a certain amount of price certainty. If Dairy Revenue Protection were to be suspended for any amount of time, farmers would lose a valuable tool that helps them successfully run their businesses.

I would also like to support my voice for Proposals 16 and 17 submitted by Edge Dairy Farmer Cooperative for consideration, as both remove advanced pricing and create a better environment for farmers to effectively manage price risk.

Advanced pricing can create negative PPDs, or producer price differentials, when markets experience rapid fluctuation as seen in the last few years. This can result in adverse conditions for farmer risk management, as nearly all hedging programs do not account for negative PPDs. Additionally, Proposal 16 bases the fluid skim milk price on dairies most traded commodity, cheese.

Thank you very much for allowing me the opportunity to testify at this hearing. I am thankful to see so many farmers able to participate in this critical dairy policy discussion, and enhanced flexibility has encouraged that. Thank you.

THE COURT: Okay. Does that complete your



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| | TRANSCRIPT OF PROCEEDINGS September 15, 2 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING |
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| 1 | statement? And sorry for mispronouncing your name. I put |
| 2 | an F on there instead of a P, didn't have it in front of |
| 3 | me. |
| 4 | Is there are there questions for this witness |
| 5 | from anyone besides AMS? |
| 6 | Mr. Munch. |
| 7 | CROSS-EXAMINATION |
| 8 | BY MR. MUNCH: |
| 9 | Q. Hi, Amy. My name is Danny Munch. I'm with the |
| 10 | American Farm Bureau Federation. |
| 11 | Can I just ask, are you a Farm Bureau member? |
| 12 | A. Yes, I am. |
| 13 | Q. That's great to hear. |
| 14 | Can you speak to any of the disorderly marketing |
| 15 | conditions you've faced over the past few years and how |
| 16 | that impacted your farm? |

17 Α. Yeah. As prices change and fluctuate, what -- we utilize DRP and some forward contracting on our farm, and

19 being an insurance agent myself, we really try and

protect, go out probably six to 12 months at a time.

2.1 you know, you there are some gaps in there that we weren't

22 able to protect. Even over this past summer, prices the

way they dropped, there's -- there just wasn't a lot of

24 protection out there.

> We also experienced a roof loss from a heavy snowfall too, and so we kind of had a double sword whammy against us as prices continued to drop.

> > And so it's really challenging as a farmer when



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| 1 | you are trying to plan out the next year or two and |
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| 2 | continue to be relevant in the market to have that floor |
| 3 | protected, but it's really important that you stay on top |
| 4 | of it also. |
| 5 | MR. MUNCH: Thank you. That's all I had. |
| 6 | THE COURT: Anyone else other than AMS? |
| 7 | Seeing none, AMS. Ms. Taylor. |
| 8 | CROSS-EXAMINATION |
| 9 | BY MS. TAYLOR: |
| 10 | Q. Good afternoon. This is Erin Taylor with AMS. |
| 11 | Thank you for joining us to testify virtually today. |
| 12 | You mentioned you do use DRP. When you are making |
| 13 | those risk management decisions, how far out do you look |
| 14 | to lock in positions? |
| 15 | A. So today being September, I am looking out to |
| 16 | second quarter and third quarter next year already. I may |
| 17 | not do all of it, but I am looking out that far. |
| 18 | Q. Thank you. |
| 19 | And for those watching and in the room, the Edge |
| 20 | exhibits are live now, so you can look at that online. |
| 21 | And Ms. Penterman's is marked as Edge-9. |
| 22 | And at the bottom of your statement you talk about |
| 23 | negative PPDs in your check. You also talked a little bit |
| 24 | about that with the question from Mr. Munch. |
| 25 | And I wanted to just ask, when it comes to what |
| 26 | you all receive in your paycheck, we have heard a lot of |
| 27 | discussion over the past few weeks about how prices |



received by the producer in a way already reflect some

problems as people see them with the price formulas, and so producers are seeing lower premiums, for example, in their checks. So I'm just curious if you could speak to your experience.

A. So what we're doing is we're projecting -- you know, we're constantly looking at our bottom line, we know where our cost of production is. And I'm contracting through DRP or whatever methods I have for that -- that floor that I know that I need to get.

So you're banking on -- you are looking at the futures prices and what -- what's predicted out there, but when you actually get your check, and with these negative PPDs, some months it could be \$0.25 lower, some months it could be negative \$0.70, or even higher. And so that really makes a huge difference on your bottom line when what you think you're protecting and what you are getting, there's a gap there. And there's nothing to protect you for that, and it gets really frustrating.

- Q. Okay. And when you are locking in for your cost of production, you know, can you give a rough estimate of how much of your production you try to cover?
- A. Usually I stick around 75%, and I do it in increments. I'm usually -- I have got that 75% protected -- like for fourth quarter of this year, I have everything that is protected for fourth quarter. Into the first quarter of next year, I want to have that 30% -- depending upon what markets are doing -- 30 to 40% for first quarter, and then maybe just 25% for second quarter,



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1 and then entertaining to look at third quarter. 2. Ο. Okay. Thank you. 3 Α. Yep. MS. TAYLOR: That's all from AMS. Thank you. 4 THE COURT: Very well. Anyone else? 5 6 I guess we'll wait until we get hard copies of the 7 exhibit. We won't need the witness here for that, I don't 8 think. 9 I appreciate you testifying before us today, 10 Ms. Penterman, and I quess that's it. You may step away 11 from the camera or whatever it is at your location. 12 Anyway, thank you very much. 13 MS. TAYLOR: Your Honor, we do have a number of 14 witnesses from Edge that -- whose statements are online, 15 but we don't have printed copies. So that's what we did 16 last week, is we can reserve those numbers, and we'll 17 print them off and have them hard copies on Monday. 18 THE COURT: Very well. 19 MS. TAYLOR: Okay. I think up next Steve Pierson. THE COURT: Mr. Pierson, please raise your right 20 2.1 hand. 22 I'm Judge Strother, by the way. I'm presiding 23 over this proceeding. And I need to swear you in, sir, 24 raise your right hand. I can see you. 25 Apparently, we were on mute. I'm Judge Strother. 26 I preside over this hearing, and I need to swear you in as 27 a witness.



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Please raise your right hand.

| 1 | | STEVE PIERSON, |
|----|---------|---|
| 2 | | Being first duly sworn, was examined and |
| 3 | | testified as follows: |
| 4 | | THE COURT: Very well. Your witness. |
| 5 | | DIRECT EXAMINATION |
| 6 | BY MS. | VULIN: |
| 7 | Q. | Hi, Mr. Pierson, this is Ashley Vulin. I'm an |
| 8 | attorne | y with the Milk Innovation Group. How are you |
| 9 | doing? | |
| 10 | Α. | Good. Good morning, Ashley. |
| 11 | Q. | Good to see you. |
| 12 | Α. | Actually good afternoon where you are, maybe. |
| 13 | Q. | We call it we're here all day, so it doesn't |
| 14 | matter. | |
| 15 | | So can you state and spell your name for the |
| 16 | record, | please? |
| 17 | Α. | Certainly. My name is Steve Pierson, S-T-E-V-E, |
| 18 | P-I-E-R | -S-O-N. |
| 19 | | Our address is 22431 River Road Northeast in |
| 20 | St. Pau | l, Oregon, 97137. |
| 21 | Q. | Thank you, Mr. Pierson. |
| 22 | | And do you have in front of you your statement? |
| 23 | Α. | I do. |
| 24 | Q. | And could you share that with us today, please? |
| 25 | Α. | I certainly will. And but before I get |
| 26 | started | , I do want to tell you how honored I am to have |
| 27 | this op | portunity to address you, Judge Strother, and the |
| 28 | USDA. | So thank you so much for this opportunity. |



| 1 | Q. And should we sorry to interrupt. Before you |
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| 2 | start reading. |
| 3 | MS. VULIN: Do we need to give it an exhibit |
| 4 | number now? |
| 5 | THE COURT: Yes, might as well. Let's reserve |
| 6 | or as far as I'm concerned it's marked as 206 now, and |
| 7 | we'll admit it into the record when we have hard copies |
| 8 | I do have them? |
| 9 | MS. TAYLOR: I think you have a paper copy. |
| 10 | THE COURT: MIG-14 is now 206. |
| 11 | (Thereafter, Exhibit Number 206 was marked |
| 12 | for identification.) |
| 13 | MS. VULIN: Thank you. |
| 14 | BY MS. VULIN: |
| 15 | Q. Okay. Sorry to interrupt, Mr. Pierson. |
| 16 | THE COURT: And thank you for being here. I'm |
| 17 | very honored that you would come and talk with us today. |
| 18 | THE WITNESS: Well, thank you so much. |
| 19 | Anyway, I do appreciate the opportunity to offer |
| 20 | this testimony on the Federal Milk Marketing Order pricing |
| 21 | topics and the ability to provide my remarks to the |
| 22 | Zoom on the Zoom format. |
| 23 | I do farm in Oregon. Travel to Indiana would have |
| 24 | been a bit of a strain on the farm operation and employees |
| 25 | and most importantly my family. It's remarkable, quite |
| 26 | frankly, that technology allows us to offer this live |
| 27 | testimony from a remote setting, and just a couple minutes |



ago, I just got done doing my morning tours on the dairy.

BY MS. VULIN:

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- Q. And, Mr. Pierson, I'll just remind you to go nice and slow for our court reporter, please.
 - A. Sure. Sorry.
 - O. Thank you.
- A. We operate a USDA certified organic dairy near St. Paul, Oregon. We're about 30 miles south of Portland. We ship our milk through CROPP cooperative.

At Sar-Ben Farms we milk about 285 cows and we manage about 700 animals in total when you include the non-lactating youngstock and the dry cows. I graduated with a Dairy Science degree from the University of Florida, and while I didn't come from a dairy background, I have now over 30 years as dairy farmer. I'm actually a first generation dairy farmer.

I know USDA is interested in whether we are a small business or not, and the answer is yes, we are a small business under \$3.75 million in sales a year.

And on the farm we crop nearly 180 acres which is entirely in perennial pasture which is irrigated. We milk Jerseys and Holsteins and Jersey-Holstein crosses, and this is our mix that works well for our farm for a lot of different reasons.

Our family and farm is truly focused on dairy and other than selling a small amount of composted manure solids to a fertilizer company, we derive 100% of our revenue from organic milk sales and organic animal sales.

The farm first started milking cows on this



facility in 1958, and today there are four generations on the farm which of course include my young grandchildren. We are a licensed Grade A dairy operation and much of our milk goes into fluid processing in the Pacific Northwest and a smaller portion is used for powder, butter, and yogurt.

The farm is the primary income for five family households and much of the labor and day-to-day management is carried out by our family members. We also have two full-time employees.

We became certified organic in 2005 after starting that transition in 2002. Becoming certified organic has been a game changer for us and has allowed us to continue to bring more generations onto the farm.

I have to admit, I am proud of the fact that our three adult children -- Kevin, Ryan, and Sarah -- all graduated with honors from Oregon State University, and also come back to farm with us on the dairy. So all three of the kids are here, as well, of course, as my wife Susan.

Part of what drew us to CROPP Cooperative was not only the opportunity for a higher, more stable and predictable pay price, a challenge that we just heard the previous witness, you know, speak about very eloquently, in the conventional market, but also the mission to really -- that really resonated with us.

And I'll state our mission for you. It is "to create a cooperative" -- "to create and operate a



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marketing cooperative that promotes regional farm diversity and economic stability by the means of organic agricultural methods and the sale of organic" -- or "certified organic products."

In a nutshell what we're saying is we want to support small family farms and the rural communities that they exist in.

In 2005, we became CROPP Cooperative members. While the co-op has over 1600 members nationwide, as of today we have around 80 farm members in the Pacific Northwest as well as a processing plant in McMinnville, Oregon. This plant has been used for standardizing farm milk, some butter and powder production, and the co-op bought the facility in 2016.

After substantial capital investment, we brought the plant up to a very modern processing facility, which is much needed in the Northwest. However, in 2021, we -- the plant suffered a devastating fire, which we are still trying to rebuild from. The facility is certified organic and processes only organic milk.

With a supportive family, I was able to run for the CROPP Cooperative board in 2012 and was honored to be elected to the Board of Directors of the co-op.

So I have served on the Board for over ten years, and it is a privilege to serve, but it certainly demands a lot of my time. And as any cooperative board member can state, it can be fairly stressful at times.

Decisions in the board room impact all the



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thousands of the farmer members that we have, as well as the 900 employees that are dedicated to our mission and to our farmers.

We do have a saying in our co-op, "no margin, no mission."

So like all the dairy in the dairy industry, we are operating on an extremely competitive landscape. The Federal Milk Marketing Order regulations have an outsized impact on a cooperative, creating a multimillion dollar pool obligation annually and provide no benefit to our members or the cooperative. It is detached from our core business of sourcing organic milk, processing organic milk, and selling or marketing organic milk.

At the cooperative, we as the board of management annually establish our pay price based on market performance and our own ability to manage the supply and the inventories of organic -- of our organic products. We have some seasonal adjustments and quality premiums but do not as a regular course of business change the pay price month to month, which sets us -- you know, obviously differentiates us from the conventional world.

Our primary method of balancing our own milk supply is through a quota system that every member must adhere to, and it allows us to plan throughout the year.

CROPP's organic utilization is set at 98%.

Selling organic milk as a non- -- as a non-organic is our last option, and we take every effort to avoid. It is a losing proposition to sell our organic product in the



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conventional market.

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Let me just state real quickly another concept we have in our co-op, and that of course is that none of us is as smart as all of us. And our robust supply management program to bring us up to 98% organic utilization has been key to helping our success and minimize our opportunity to use the convectional market.

We engaged our membership for over a period of several months to come up with a supply management program to help ensure that we don't have an oversupply of organic milk.

And I guess I would like to just say for a minute that this "none of this is as smart as all of us" is really emblematic of what we're trying to do here today. You know, we're trying to work collaboratively with the USDA to come up with workable solutions together that work best for both the conventional market and the organic market. So I do appreciate the fact that we are able to work collaboratively on that.

Our participation in the Federal Milk Marketing Order restricts our ability to return more financial stability to our farmers. If this hearing creates an outcome that increases our pool obligations, let's just say 30, 40, or 50% of what we're already contributing, it would require cooperative leadership to do one of three things:

Increase the consumer prices to try to generate more income, which essentially is a non-starter in this --



in these -- in this time of high inflationary economy, and especially a risk for those of us in the premium dairy categories where we are already seeing some price sensitivity, organic consumers stepping away from the organic dairy because of price increases we have been forced to put in because of supply chain inflation; pull back on the cooperative asset investment and staffing, a move that would fundamentally limit our ability to bring products to the market; but most likely scenario would be a suppression of farm milk price increase opportunities and perhaps a reality that we may need to lower the pay price to our farmer members to satisfy our obligations to the FMMO.

The latter of those I hope will never happen because -- and we definitely don't want to have to consider that in the board room.

The biggest risk to the co-op is increased Class I differentials. And I know the Milk Innovation Group is asking in this hearing and examination -- of the examination of the Class I differentials, and that's the right starting point: Do these even make sense anymore as justification to draw milk to service the Class I market? My guess is they don't, but that should definitely be explored.

I know the USDA does not see all dairy farmers as a monolithic block, and frankly, the order should not treat everyone like they are a monolithic block, either in this or national hearing.



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Just because you can take a price from our cooperative and our organic dairy farmers because of a 1930 law does not mean that that should be the path or it's in the best interest of the industry to undermine the very part of the dairy that over the last ten years has been growing and connecting with our consumers.

I did sign the letter with some 174 organic dairy farmers urging the USDA to examine in this hearing the proposal to exempt organic milk from pooling obligations when farmers are paid above the Class I premiums. I continue to believe it should be added to the hearing and the response by the USDA why it isn't part of discussion is insufficient.

Thank you for the opportunity to testify, and I am open for any clarifying questions. Thank you.

- Q. Thank you, Mr. Pierson. Appreciate you joining us today.
- MS. VULIN: The witness is available for cross-examination.
- THE COURT: Any questions for this witness other than AMS?
- Seeing none, Ms. Taylor.
- MS. TAYLOR: Yes.
 - CROSS-EXAMINATION
- 25 BY MS. TAYLOR:
 - Q. Thank you for joining us, Mr. Pierson. This is Erin Taylor from AMS, and I appreciate you taking time out of your day to join us.



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- A. We are enrolled in DMC, but we don't use any market hedging with our milk. Our risk management is mostly built into our participation in Organic Valley. We have a long-term contract and a set pay price for our milk throughout the year. The cooperative is built in part to function as a hedging tool for the farm -- for a farm like me.
 - O. Okay. Thank you.
- A. Yeah. You know, in effect, the co-op absorbs much of the up-and-down market movement and takes a risk -- helps to minimize that risk for the dairy farmers.
- Q. Okay. And you say most of your milk goes to a Class I plant; is that correct?
 - A. I believe so, yes.
- Q. And how far does your milk go to make it to that plant?
 - A. Well, the processing for Class I is generally done at Portland, and like I mentioned earlier, I'm about 30 miles from Portland.
 - Q. And do you have to pay the haul on that load or that's accounted for in the contract price you have with --



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- A. The co-op -- the co-op subsidizes our hauling to a degree. We do pay some stop -- monthly stop charges and a small charge but -- for hauling, but not the entire amount.
- Q. Okay. And have you seen those hauling costs increase over the past few years or --
- A. Actually the Board of Directors approved a hauling cost increase, I want to say in 2017, which was the first time probably in ten years that we had done that. So the hauling costs have not been changed very much at all.
 - Q. Okay.

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- A. But again, that burden on the supply chain, inflation has been absorbed -- is being mostly absorbed by the co-op.
 - Q. Okay. And with your contracted pay price, has that changed much over the years? I don't know how often that is, you know --
 - A. That's a great question. And every year the Board of Directors passes its annual budget, and in that annual budget is our -- it includes our stable pay price for the next year. We are -- last year we did budget a \$0.50 increase across the nation to the farmers, and we're planning on doing that -- hopefully we can do that again next January. So it goes up incrementally.
 - Q. Okay. But you haven't seen a decline?
 - A. We have not seen a decline. We did see a decline in 2016 when we -- when we became oversupplied for a period of time until we started our supply management



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Q. Okay. At the bottom you mention that most of the milk goes to fluid, then a smaller portion is used for powder, butter, and yogurt.

Is that organic butter, powder, and yogurt?

- A. Yes, all.
 - 0. It is?
 - A. Yeah.
 - O. Okay. But so the --
- 10 A. That's what contributes to our 98% organic
- Q. Okay. Okay. You talked about -- you mentioned that the way Organic Valley and CROPP balances supply is through a quota system.

Is that for the co-op as a whole or just in your area?

- A. The co-op as a whole. And, you know, different areas can be -- I would -- you know, I would be -- you know, can be approved for more production based on processing capabilities and local demand. But the whole co-op is under it, yes.
- Q. Okay. So then do you think there's a lack of organic milk in the market right now, on the raw milk side since you -- you have instituted some supply management system, or not?
- A. I would say -- I don't think that there is a lack of -- I think we're fairly balanced, in my opinion, across the country, reasonably well balanced right now, in



organic supply. To be honest with you, I think we're very concerned about the -- if the economy is going to go into a deep recession, what that would do to premium products, including organic. So far it hasn't been -- we haven't seen a serious decline in demand, but there definitely has been a softening of demand because of price increases that we have had to employ. But I would say we're reasonably balanced.

- Q. Okay. And then when you talk about the 2% going into non-organic, since 98% is the goal, is the 2% -- what drives that, maybe lack of demand or lack of organic processing capacity?
- A. I would say most of it is lack of the ability to capture the product in line loss. There would be -- I don't think it's lack of demand. Lack -- if it was lack of demand, it would be significantly higher than 2%, I believe. I think that when you go into a plant -- because we use co-producing plants across the country -- Organic Valley employs about 60 or 70% co-processors across the country, and there is going to be some efficiency loss in -- when you do process, because typically what happens, of course, is you will have to process the organic milk first and then they'll sanitize their systems and process the organic milk first, and then they will process the conventional milk after that. And there will be some typically line loss that we -- that we see.
 - Q. Okay. And you say --
 - A. But I don't believe it is demand.



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- Q. Okay. And you say the goal is 98%. But can you speak to what -- what is maybe the average?
- A. Oh, I -- okay. Maybe I -- maybe I slightly misspoke. Our current -- we currently are at 98%. I would have to say we would happen to hit a range between 95 and 98 would probably be realistic. Things happen, that sometimes you do need to be forced to sell milk, you know, other than organic. Say, for instance, your processing plant can't handle your milk at that point in time, things are out of your control. But, like I said, we are -- this is something the Board of Directors monitors very closely because it has a direct impact on our bottom line, and we are at 98% right now.
- Q. And when the processing plant can't handle your volume, what happens to that milk?
- A. Well, I would imagine that -- well, actually, I can't really speak to that because I don't -- I don't really get down that far into the weeds of what -- where the milk goes. But typically we would try to find an alternative processor, and it could be organic -- it could be a conventional market or it could be another organic market, too, that's available. But that's really not part of what I get involved with.
 - Q. Okay. Thank you.
 - A. Sure. Thank you.
- MS. TAYLOR: That's it from AMS.
- 27 Thank you, your Honor.
 - THE COURT: Anyone else? Okay.



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| 1 | MS. VULIN: Thank you for joining us, Mr. Pierson. |
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| 2 | And do I need to move to admit Exhibit 206? |
| 3 | THE COURT: That's what we have been doing. |
| 4 | Any objection to Exhibit 206 coming into the |
| 5 | record? |
| 6 | Seeing none, Exhibit 206, this witness statement, |
| 7 | is made a part of the record in this proceeding. |
| 8 | (Thereafter, Exhibit Number 206 was received |
| 9 | into evidence.) |
| 10 | THE COURT: Thank you so much, Mr. Pierson. |
| 11 | THE WITNESS: My pleasure, my honor. Thank you, |
| 12 | Judge. |
| 13 | THE COURT: Bye-bye. |
| 14 | MS. TAYLOR: Thank you. |
| 15 | And then I think up next is Neil Hoff, so we'll |
| 16 | bring him up on the screen. |
| 17 | Mr. Hoff, if you are there and your video is on, |
| 18 | if you could just speak, and then I think on our side the |
| 19 | screen will change. I'm hoping. |
| 20 | I don't think your video is on, but that's okay if |
| 21 | you don't want to turn your video on. |
| 22 | THE WITNESS: No, I want to do that. |
| 23 | (Off-the-record.) |
| 24 | THE COURT: Back on the record. |
| 25 | Welcome, Mr. Hoff. My name is Channing Strother. |
| 26 | I'm the presiding judge in this proceeding. I would like |
| 27 | to swear you in. Please raise your right hand. |
| 28 | / / / |



| 1 | NEIL HOFF, |
|----|--|
| 2 | Being first duly sworn, was examined and |
| 3 | testified as follows: |
| 4 | THE COURT: Your witness. |
| 5 | DIRECT EXAMINATION |
| 6 | BY MR. PROWANT: |
| 7 | Q. Good afternoon, Mr. Hoff. I'm Bradley Prowant, |
| 8 | one of the attorneys representing National Milk. |
| 9 | If you could go ahead and please state and spell |
| 10 | your name and provide us with a business address. |
| 11 | A. Sure. I'm Neil Hoff, N-E-I-L, H-O-F-F. And my |
| 12 | address is 2205 Hoff Road, Windthorst, Texas. |
| 13 | Q. Thank you. |
| 14 | Mr. Hoff, did you prepare a written statement for |
| 15 | today? |
| 16 | A. I have. |
| 17 | Q. And is that the document labeled NMPF Exhibit 74? |
| 18 | A. Yes. |
| 19 | Q. All right. |
| 20 | MR. PROWANT: If we could go ahead and mark that |
| 21 | with the next exhibit number. |
| 22 | THE COURT: Yes. NMPF-74 is marked for |
| 23 | identification as 207. |
| 24 | (Thereafter, Exhibit Number 207 was marked |
| 25 | for identification.) |
| 26 | BY MR. PROWANT: |
| 27 | Q. Mr. Hoff, could you go ahead and please read your |
| 28 | statement for us. |



A. Yes. And thank you, your Honor, for allowing me to do this virtually. Like the previous presenter said, it's pretty nice to stay on the farm and be able to do the work. So thank you for allowing me to do it in this -- virtually like this.

THE COURT: We're all very pleased to have you here, sir.

THE WITNESS: Thank you very much.

Hello, my name is Neil Hoff, and I am a dairy farmer from Windthorst, Texas. Today I am testifying on behalf of the National Milk Producers Federation (NMPF) and my dairy cooperative, Dairy Farmers of America (DFA), in support of the NMPF proposals. Thank you for giving me the opportunity to express my thoughts on milk order modernization.

I am a fourth-generation dairy farmer, working the same land as my great-grandfather did back in the late 1800s. Two of my grandsons currently help me on the farm. They are the sixth generation milking cows on this farm.

In our industry, all farms strive to be sustainable but the term sustainability remains hard to uniformly define. At my farm, as each generation hands off to the next, we make sure that the farm and the cows are in a better place than when they took over. We make sure the farm is improved with each generation. That, to me, should be the definition of what sustainability is all about.

I currently milk about 100 cows, half Holstein and



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half Jerseys. This is about the same number of cows that I milked 20 years ago. One of the reasons I have not grown over the years has been due to me being away from the farm because of my expansive involvement in the leadership of our industry.

On the dairy marketing side, I was on the original Board of DFA when it was formed back in 1998, and still serve today on its corporate Board of Directors. On the policy side, I currently sit on the NMPF Board of Directors, and on the advertising and promotion side, I have served on the Dairy Management, Inc. (DMI) Board of Directors for about 25 years. Additionally, for the last 12, I have been honored to have served as Chairman of the United Dairy Industry Association (UDIA), the dues paying and state and region side of dairy promotion.

So I wear a lot of hats in our industry, but my testimony today is personal, not from one of the hats I have worn or wear today, but from me, from my heart.

I would like my small dairy to stay viable for at least my next two generations. I would like for my grandsons, currently working on my farm, to have the opportunity to make a decent living and raise their families the way my parents and grandparents did. I believe the NMPF proposals provides the best chance!

The past few years there have probably been well over 100 meetings of dairy producers to try to gain some consensus for a unified Federal Order plan. I have been a part of many of those meetings.



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Dairymen are generally conservative, independent thinking people. It is usually hard for dairy producers from all across this country to come to an agreement on just about any issue. But through the many meetings held by both the cooperative and the NMPF membership, producers have united!

The NMPF Board of Directors, representing all size farms, from all areas of the country, voted unanimously for the proposal that has been submitted to this hearing, and the 48 members of the DFA Board of Directors representing all size dairies from all across the country also voted unanimously!

Now, I understand that Make Allowances are an important aspect in determining Federal Order Class Prices, and from time to time there is a regulatory need to adjust them. I ask that in doing so that the USDA consider the impact on dairy farm operations' milk prices, and maybe, more importantly, the impact on dairy farm profitability.

The more modest changes proposed by NMPF, which they have indicated will still lower farm milk prices by just a little bit about, all else equal, is a troublesome but acceptable change for me. The significant changes proposed by the International Dairy Foods Association and the Wisconsin Cheese Manufacturers Association would be much more detrimental to my milk price and I think should be rejected.

My community, Windthorst, is a small, but



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thriving, community in North Central Texas, north of Dallas, with about 500 residents. Windthorst is like many of the small towns across this country that make up the backbone of America, but the only industry in my town, and supporting its people, is the dairy industry!

I believe to keep a stable dairy industry that will support my small town, we need help from USDA with this order modernization.

So, on behalf of my small dairy and my family who operate it, and my community that I love, I ask you all to support the NMPF proposals that have been already submitted at this hearing.

Now, I understand that for a fair hearing all interests should be heard. But at the end of the day the recommended decision by USDA will be a producer program, voted on by producers only! I ask that you listen to the producers and seriously consider the NMPF proposals submitted at this hearing. I really do think that these proposals will give my small farm a fighting chance going forward.

So let me conclude, my dairy, my family, and my community are asking for your help today.

Thank you, and I will be available for any questions.

BY MR. PROWANT:

Q. Thank you, Mr. Hoff. Just a couple quick questions that are being asked of all witnesses.

A small business for a dairy farmer is defined as



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| | NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING |
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| 1 | one that has \$3.75 million in gross receipts on a farm |
| 2 | wide basis. |
| 3 | Would you meet that definition? |
| 4 | A. I'm definitely under that amount. |
| 5 | Q. All right. And then the other question that's |
| 6 | being asked of all of our producers is whether or not they |
| 7 | use any sort of risk management tools. |
| 8 | Do you use any sort of risk management tools on |
| 9 | your farm? |
| 10 | A. Yeah. The risk management that I currently use is |
| 11 | the Congress-approved DMC, Dairy Margin Coverage Program, |
| 12 | and for my size farm it has greatly helped, and the farms |
| 13 | that I represent here in Texas. I do have available at my |
| 14 | fingertips through my co-op all kind of risk management |
| 15 | plans, but at the current time I am happy with what is |
| 16 | provided by the DMC program. |
| 17 | Q. Thank you, Mr. Hoff. |
| 18 | MR. PROWANT: Mr. Hoff is available for any |
| 19 | questions. |
| 20 | THE COURT: Anyone other than AMS? |
| 21 | Yes. |
| 22 | CROSS-EXAMINATION |
| 23 | BY MR. MUNCH: |
| 24 | Q. Hi, Neil. My name is Danny Munch. I'm from |
| 25 | American Farm Bureau Federation. |
| 26 | Any chance one of your other hats is a Texas Farm |



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Bureau member?

Α.

I am a Texas Farm Bureau member, proudly, for a

number of years.

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- Q. Well, that's great to hear. We appreciate that.

 Is there any way you could maybe talk about some of the specific disruptions your farm has faced in the past few years related to milk markets and pricing dynamics?
- A. Yeah. My farm, like many small farms, we faced a lot of disruptions, not only from the markets and from what happens out there that we really don't have a lot of control over, but even some things like weather and feed prices and hauling and all of these things that years ago, I guess were big issues, but it didn't seem like it at the time, but today all of a sudden are big ticket financial issues. So that has caused some trouble on the farm.

 But -- but other than that, through the programs, my co-op has done a pretty job of taking care of those things for me, and I rely heavily upon them to take care of most of the regulatory and the -- and the environmental stuff that I have to do -- have to -- have to look forward to.

MR. MUNCH: Thank you, Neil. That's all I had.

THE COURT: Anyone else other than AMS?

Seeing no one, Ms. Taylor.

CROSS-EXAMINATION

BY MS. TAYLOR:

- O. Good afternoon.
- 26 A. Hi.
 - Q. Thank you for joining us virtually to testify today.



A. Yes.

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Q. Just a couple questions from AMS, although soon everyone is going to anticipate my questions and I won't have any questions. I'm waiting for that day.

Since you are a co-op producer, can you talk a little bit about how the current Make Allowance levels are impacting you -- are impacting your cooperative since you serve on the DFA board and you as a producer?

A. Yeah, I -- I testified this morning on the total package. I hate to break down into individual deals, but I do know that even small increase in Make Allowances will negatively impact -- impact my farm.

I think the bigger picture for me is -- and I have been told by dairy economists that the NMPF total package, when you look at it all -- and I don't think it's fair to break out individual parts of it -- when you look at the total package, it would still maybe have a small negative impact on my milk price going forward.

But if you look at some of the other proposals, such as IDFA, this could impact my farm negatively to about \$1.50 a hundredweight is what I have heard from the economist. \$1.50 a hundredweight would in my opinion just about kill my dairy, and the small dairies that I represent, it would -- it would all but erase the small dairy farms that are across my part of the country.

So I know Make Allowances, I haven't gotten deep, but we have staff, paid staff, that have gotten real deep into that in this testimony. So at this time, if it is



okay, I would rather not get real deep into that.

I did have a question, you mentioned hauling. How far do you -- does your milk have to go to find a home?

It sure is, and I don't blame you, frankly so.

- A. Yeah. I -- I testified that I was north of the Dallas area. I'm 130 miles north of the Dallas area. That is our primary market. So it -- hauling is a large part of my expenses going forward. At our co-op level we do have what we call farm-to-market hauling that is individual to my dairy based on size and how far I am from the market. And then everything above that is spread like peanut butter and called inter-market hauling. So it works out pretty well, but it is still a large expense for me would be the hauling, being 130 miles from my primary market.
 - Q. So if I want to resay what I think I heard was you're responsible for the payment of your milk to your closest market, but if your milk ends up needing to go somewhere else, your co-op covers that piece?
 - A. Yeah. We as producers of the co-op cover that, yeah. Yeah. That's -- you said that right.
 - Q. Okay. And -- and for the haul that you are charged for, have you seen those costs increase or from a co-op side have you seen, you know, the ability -- the money has to come from somewhere. If your co-op is blending that cost amongst all its members, have you seen those costs increase?
 - A. Oh, without a doubt costs have increased. Diesel



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| 1 | has gone up. The cost of equipment has gone up. And |
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| 2 | without a doubt hauling has increased. Our co-op does a |
| 3 | nice job of trying to keep it at the lowest level. But, |
| 4 | again, as you say, that money has to come from somewhere, |
| 5 | and I think where that money has to come from is the dairy |
| 6 | farmers. So so we do hauling is a major expense, |
| 7 | and we do everything we can to try to try to keep it as |
| 8 | reasonable as we can. But without a doubt, it's gone up |
| 9 | over the past years. |
| 10 | MS. TAYLOR: Thank you. That's it from AMS. |
| 11 | THE WITNESS: Thanks. |
| 12 | MR. PROWANT: Your Honor, we just move to enter |
| 13 | Exhibit 207 into the record. |
| 14 | THE COURT: Seeing no objections, Exhibit 207, |
| 15 | this witness' statement, is entered into the record of |
| 16 | this proceeding. |
| 17 | (Thereafter, Exhibit Number 207 was received |
| 18 | into evidence.) |
| 19 | THE COURT: Thank you so much, Mr. Hoff. I |
| 20 | appreciate you coming to talk to us. |
| 21 | THE WITNESS: Thank you, your Honor. I appreciate |
| 22 | it. |
| 23 | MS. TAYLOR: Okay. Next up we have Sietse |
| 24 | Tollenaar, and apologies if I am not saying that quite |
| 25 | correctly, but we will bring them on the screen. |
| 26 | THE COURT: There you go, sir. Hi. I'm Channing |
| 27 | Strother. I'm the presiding judge over this proceeding. |



and right now I'm here to swear you in. Please raise your

| 1 | right hand. |
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| 2 | SIETSE TOLLENAAR, |
| 3 | Being first duly sworn, was examined and |
| 4 | testified as follows: |
| 5 | THE COURT: Your witness. |
| 6 | DIRECT EXAMINATION |
| 7 | BY MS. CLIPPINGER: |
| 8 | Q. Good morning, Mr. Tollenaar. And I say morning |
| 9 | A. Good morning. |
| 10 | Q because I know he's on the Pacific time right |
| 11 | now. |
| 12 | Would you please and state and spell your name for |
| 13 | the record? |
| 14 | A. Sietse Tollenaar, S-I-E-T-S-E, and the last name |
| 15 | is T-O-L-L-E-N-A-A-R. |
| 16 | Q. Thank you. |
| 17 | And would you please provide your business address |
| 18 | for the record? |
| 19 | A. 3355 Virginia Road, Wheatland, W-H-E-A-T-L-A-N-D, |
| 20 | California, 95692. |
| 21 | Q. Thank you. |
| 22 | And I understand you have prepared a written |
| 23 | statement today. Has that been marked as DFA Exhibit 5? |
| 24 | A. Yes. |
| 25 | MS. CLIPPINGER: I would ask that that be marked |
| 26 | as Exhibit I think it is 208 we're on? |
| 27 | THE COURT: Yes, that's what my records indicate. |
| 28 | DFA-5 Is marked for identification as 208. |



| 1 | (Thereafter, Exhibit Number 208 was marked |
|---|--|
| 2 | for identification.) |
| 3 | MS. CLIPPINGER: Thank you very much. |
| 4 | BY MS. CLIPPINGER: |

- Q. And then, Mr. Tollenaar, would you please read your statement for the record?
 - A. I sure will. Thank you.

My name is Sietse Tollenaar, and for over 28 years it has been my joy to be part of the dairy industry. In 1992, my wife and I left my parents' dairy to work for the Fred De Boer Dairy in Southern California. In 1995, we started Tollcrest Dairy in Wheatland, California, just north of Sacramento.

I serve on the Western Area Council of Dairy
Farmers of America, Milk Producers Council, California
Dairy Research Foundation, Council on Dairy Cattle
Breeding Producer Advisory Committee and treasurer for our church board.

In June of this year, our youngest son and his family moved back to Wheatland, and we are beginning the process of bringing them into ownership. We are thrilled to bring the second generation to our dairy farm!

I am convinced this is an exciting time for our industry, filled with opportunity and possibility. By adopting NMPF's proposals, you ensure the continued support and growth of our nation's dairy economy.

I appear today in support of the National Milk Producers Federation proposals to:



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- (1) Limit the Make Allowance increase to their proposed levels;
 - (2) Return the Class I mover to the higher-of;
- (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 Federal Order skim milk price;
- (5) Implement their national Class I differential and price surface proposal.

This has been a trying and challenging year for Tollcrest Dairy. Since June of 2022, the Federal Order 51 Statistic Uniform Milk Price has declined by over \$9 per hundredweight, which is comparable with the decline in our milk check. Our costs of production have not gone down to the same degree. Feed costs, utility, labor, insurance, equipment maintenance, and other expenses have all greatly inflated since 2020.

My hope is the Secretary of Agriculture considers the impact on dairy farmers' milk checks and the need to be profitable. The more modest Make Allowance changes proposed by NMPF, which they have indicated will lower farm milk prices by about \$0.50 per hundredweight, is still challenging, I believe, but doable.

In 2019, the dairy industry agreed to "experiment" with a Class I mover that utilized the average of the Advanced Class III and Class IV skim milk prices plus \$0.74 per hundredweight instead of the higher-of. We were



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told this change was important to the Class I processing industry to allow them to hedge their Class I milk.

I'm not sure how that worked out for them, but I know our dairy's blend price has been lower due to the change. This experiment has failed for dairy farmers, and it would benefit farmers to immediately fix the mover and return the revenue to my blend price on a monthly basis.

I close by repeating my support for the NMPF proposals to eliminate barrel prices from the Class III protein price formula and updating of the Class I differential and producer price surface. Others from DFA will be speaking more directly to 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. Thank you.

- Q. Thank you.
- MS. CLIPPINGER: And with that, I would make
- 18 Mr. Tollenaar available for cross.
- 19 THE COURT: Any questions?
- 20 CROSS-EXAMINATION
- 21 BY MR. MUNCH:

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- Q. Hello there. My name is Danny Munch. I'm with the American Farm Bureau Federation.
- Is there any chance that you are a California Farm
 Bureau member?
 - A. I sure am.
- 27 | 0. Thank you for that.
- I was just curious. A lot of this discussion is



about buffering against disorderly marketing conditions.

What would you consider disorderly marketing in your operation?

A. We are certainly blessed with -- I'm part of the

A. We are certainly blessed with -- I'm part of the Western Area Council of DFA, and we just have a tremendous staff that is -- is remarkable. And -- and disruptions, of course, in every business you are going to have that. But it just -- being part of our co-op, they have certainly just been tremendous in that regard.

And one of the things I -- I love too is that my vendors are my teammates, and so whenever we have -- we have gone through so much disorder with all the COVID things and those type of things, they just -- the amazing teammates that we have and the amazing vendors that we work with, each and every one of them went above and beyond what was necessary to -- to have us continue to move on. And so we're just certainly blessed.

MR. MUNCH: Thank you.

THE COURT: Anyone else other than AMS?

AMS.

CROSS-EXAMINATION

BY MS. TAYLOR:

- O. Well, good morning there.
- A. Good morning.
 - O. This is Erin --
- A. Or good afternoon.
- Q. I have lost all sense of time at this point, so I'm not sure, just generally.



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1 This is Erin Taylor from AMS. 2. I'm not sure if I read in your statement, your operation, how many cows do you milk? 3 We milk a little over 2,000. 4 Okay. And I'm not sure if you heard our questions 5 Ο. of earlier virtual witnesses today of the small business 6 7 definition and whether your farm would meet that? No, it would not. 8 Α. It would not. 9 Ο. 10 And then another question is do you utilize any risk management tools? 11 12 Α. Yes, we do. 13 Could you elaborate on what you do use? Ο. 14 Α. DMC. 15 Ο. Just DMC, not DRP or anything? 16 Yes. Α. 17 Ο. Okay. Thank you. 18 About how far does your milk go to find a plant? 19 We -- we have two plants that are -- most of Α. 2.0 our -- our milk all goes to Class I, and so one of them is 2.1 60 miles away and the other one is 75 miles. 22 Okay. And for those hauls in recent years, have 23 you seen those costs increase? 24 Yes, they have. Just -- yeah, everything has gone 25 up, just from tires to fuel, of course, and -- just in 26 California, we have some unique challenges because we --27 trucks that get sold in -- are no longer allowed in 28 California get sent to other states. We have to



constantly have -- since the -- like regulatory definition of -- you know, these trucks have to just be updated constantly, and so that -- that makes the equipment cost tremendous -- tremendous equipment costs. And so, yeah, it has gone up tremendously.

- Q. And if you would be willing to speak a little bit about -- and I know you spoke well of your DFA staff out there and their ability to market your milk and etcetera. And I just wonder if you could speak a little bit about maybe over the past few years how you have seen kind of what's happened to your milk check. I know you talked specifically about one month this year. But there's been discussions at the hearing about the impact of Make Allowances and how that is impacting co-op producers specifically and differently from independent shippers. And I just wondered if you might speak a little bit about how that stuff has impacted you, and since you are on a DFA board out there, maybe there's -- you know, you're kind of aware of how that's impacted the co-op.
- A. So if I'm hearing you, there's like five different questions within your question. So could you make it a little bit more specific?
- Q. You know, my kids tell me the same thing sometimes when I ask them questions.

I guess -- you know, well, I'm not sure how -- I'm sure you've had better things to do than listen to this hearing over the past few weeks. But what we have been hearing --



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- A. No. This has been entertaining.
- Q. That's good to hear.

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Well, what we have heard is that different pieces of the formulas, not just Make Allowances, need to be changed, and the -- and one of the reasons that we need to reform things is because there -- it's impacting -- various pieces are impacting producer checks, whether that's low Make Allowances, whether that's the new Class I skim formula we use that got changed in 2018, you know, all of those things.

And there's been discussion about how that is impacting cooperative producers, and also how that impacts direct ship producers, so non-co-op members, and how there might be differences in the impacts.

And so I wondered if you could speak to how perhaps that's impacting you as a cooperative producer, and perhaps, you know, since you are on the DFA board out there, you know, I'm sure you all have had those discussions in your meetings about how this is impacting the co-op.

A. Yeah. Well, ultimately, we -- we -- as a director, one of the things that we're challenged with is recommendations come to the board through staff or through different things, and we discuss those things, but it is always with the producer -- the -- you know, we represent the producers.

So, yes, when we -- when we are looking at different things, the question is always asked, what is



| 1 | that going to cost, the producers that we represent. And |
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| 2 | so and I just again, I assure that we have an |
| 3 | amazing staff, and we are incredibly blessed that they |
| 4 | truly understand where we come from and that's that's |
| 5 | why I just I'm excited about supporting, you know, this |
| 6 | NMPF proposal because DFA has been a big part of that. |
| 7 | Yeah, I hope that answers your question. I just |
| 8 | with with all the nuts and bolts and the intimate |
| 9 | details, I'm not the most qualified to do that, but we |
| 10 | have people that are paid a lot more than I am that |
| 11 | understand this a lot better. |
| 12 | Q. Well, I think from USDA's perspective as a |
| 13 | producer you are very qualified to talk about how it |
| 14 | impacted you, and I do appreciate you testifying about |
| 15 | that today. |
| 16 | MS. TAYLOR: So thank you so much. |
| 17 | THE WITNESS: Thank you. |
| 18 | THE COURT: Done? Okay. |
| 19 | MS. CLIPPINGER: At this point we would move that |
| 20 | Exhibit 208 be admitted into the record. |
| 21 | THE COURT: Any objections? |
| 22 | Seeing none, this witness' statement labeled 208 |
| 23 | is admitted into this record. |
| 24 | (Thereafter, Exhibit Number 208 was received |
| 25 | into evidence.) |
| 26 | THE COURT: Thank you, sir. You may stand down |
| 27 | from the virtual stand. We appreciate you being here. |



THE WITNESS: Thank you so much.

| 1 | MS. TAYLOR: Okay. I think next on the list is |
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| 2 | Stephanie Alexandre. |
| 3 | MS. VULIN: Hi, Ms. Alexandre, can you hear us? |
| 4 | THE WITNESS: Yes, I can. Good morning. |
| 5 | MS. VULIN: Good morning. This is Ashley Vulin |
| 6 | with the Milk Innovation Group. |
| 7 | THE WITNESS: Good morning. Thank you for having |
| 8 | me. |
| 9 | MS. VULIN: And, your Honor, would you like to |
| 10 | swear in the witness, and then we can mark the exhibit? |
| 11 | THE COURT: Yes. Thank you. |
| 12 | Ms. Alexandre, I'm Channing Strother, the |
| 13 | presiding judge here, and I'm going to swear you in right |
| 14 | now. Please raise your right hand. |
| 15 | STEPHANIE ALEXANDRE, |
| 16 | Being first duly sworn, was examined and |
| 17 | testified as follows: |
| 18 | THE COURT: Your witness. |
| 19 | DIRECT EXAMINATION |
| 20 | BY MS. VULIN: |
| 21 | Q. Good afternoon Ms. Alexandre. I know you are not |
| 22 | a MIG member, but this is Ashley, and I'm here to help get |
| 23 | you started. |
| 24 | A. Hi, Ashley. |
| 25 | Q. Hi. So first, could you state and spell your name |
| 26 | for the record, please? |
| 27 | A. Stephanie Alexandre, S-T-E-P-H-A-N-I-E, |
| 28 | A-L-E-X-A-N-D-R-E. |



1 Ο. And could you give us your business address for 2. the record, please? 8371 Lower Lake Road, Crescent City, California, 3 95531. 4 And do you have your statement in front of you? 5 Ο. T do. 6 Α. 7 Ο. And it's marked at the top Alexandre-DF, correct? 8 Collect. Α. 9 MS. VULIN: And I'd ask that be marked 10 Exhibit 209. 11 THE COURT: Yes. So marked. 12 (Thereafter, Exhibit Number 209 was marked 13 for identification.) 14 BY MS. VULIN: 15 Ms. Alexandre, would you like to read your 16 statement for us, please? 17 Α. Yes. And --18 And just a quick reminder to go nice and slow for 19 the court reporter. 2.0 Α. Okay. 2.1 Thank you for providing me the opportunity to 22 testify today via Zoom. The past few weeks have been 23 exceptionally busy due to forest fires in our area. 24 were out of power for nine days last month and then we had 25 sketchy power using individual grids in our community for 26 weeks. I was very happy when power was fully restored

earlier this week.

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I grew up in the dairy farming valley of Chino,

California. My parents had 900 cows in the 1980s, and I was out with the calves and cows as soon as I could walk, just loved it. I went to Cal Poly San Luis Obispo and earned a BS in ag business with a minor in dairy science. I met my husband, Blake Alexandre, at Cal Poly in 1984. Like me, Blake is a fourth generation dairy farmer, and we've raised five kids on the dairy farm.

The fifth generation has followed in our footsteps, earning ag degrees at Cal Poly and bringing their knowledge back to our family farm. Since 2005, they have also operated Alexandre Kid's Eggs, a successful pastured-based organic egg business that uses the same regenerative organic practices as our dairy operations.

Our family, with our four adult children, along with a dedicated management team, is involved in the day-to-day activities of the farm. Everyone brings different, bright passions for agriculture. This proud grandma is hopeful that the sixth generation chooses organic agriculture, too.

I've served on the California Certified Organic
Farmers (CCOF) Board of Directors as a Del Norte County
4-H Club Leader, and I'm a passionate nutrient-dense food enthusiast.

In 1998, we started Alexandre Family's Bucket Calf program as a way for our kids to have their friends come to the dairy and learn about agricultural life and show a calf at the county fair. This summer was our 25th year with over 120 kids adopting a calf from our farm.



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We're strong proponents of sustainable organic farming practices. In 2001, we were among the first dairies in California to become certified organic.

Environmental stewardship and nutritional education are central to our management strategy. Together our family operates five grass-based organic dairies in Del Norte and Humboldt County, with 4500 crossbred milk cows on 5800 acres of irrigated pasture. We also have 2,000 acres of organic hay cropland in Modoc County.

We sell our organic milk to: Rumiano Cheese, Humboldt Creamery, Organic West Milk, and our own Alexandre Family Farm Creamery. Our family's gross revenue is over \$3.75 million, the Small Business Administration threshold for small dairy farms.

Almost 20 years ago, in our quest to better understand the nutrient density of milk from grass-pastured cows, we learned about beta casein in milk and its effect on human digestion. We have been breeding for 100% A2 beta casein protein genetics ever since. And we now have a large herd of strictly A2 organic cows.

In 2016, we purchased the assets of a small creamery in San Leandro to bottle our milk and make yogurt. We started with four employees, and we're pleased that we're now up to 27 employees at the creamery. Our Alexandre Family Farm branded milks and yogurts are distributed nationally. The creamery operation is under the Small Business Administration employee threshold for small dairy processors.



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For the past seven years our family has subsidized the development of our Alexandre Family Farm consumer brand from our well-established and profitable dairy operations. We started our brand to bring health to our farm, employees, and our rural community. We strive to educate consumers and, most importantly, bring people back to dairy for their health and the health of the earth.

Besides being passionate about nutrient-dense foods in my kitchen, I'm the controller for the Alexandre Family businesses, and my primary role in the business is heading up all financial maters. Before starting the creamery, like many dairy farmers, we didn't know much about the federal milk orders.

Today our son Joseph Alexandre handles FMMO matters for the family and our creamery. It's been a tremendous learning experience for me, him, and Blake. We struggle to understand how organic dairy farms and processors fit into the FMMO system. So far this year, we've paid over a quarter of a million dollars into the pool. We don't see any benefit from this for either the farming or the creamery operations. Those pool obligations are resources that leave our business and limit our ability to invest and grow.

In simple terms, the pool obligation effectively increases the cost of organic milk for our creamery.

Because the pool does not affect organic mailbox prices, its inclusion of organic milk producers is not necessary.

As I understand it, a FMMO benefit for a creamery



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bottling milk is access to farm milk supply and balancing the supply to finished goods manufactured. Our consumer products are certified organic plus 100% A2. We can't use conventional pool milk at our creamery. The benefit of a milk supply supported by the pooling formula is not valid when there are no organic raw milk prices tied to pool pricing. Organic raw milk producer prices are independent of the pool and are primarily long-term contracts with organic processors and cooperatives. The FMMO system does not balance for us because of the extreme loss of selling organic milk into the conventional market.

I am concerned that some of the proposals under consideration at the FMMO hearing would increase the pool obligations for operations like the Alexandre Family Farms creamery. The majority of our consumer business is dedicated to organic Class I fluid milk.

Organic dairy farming requires significant ongoing investments and innovative methods, for example, to improve soil and animal health. These investments are directly competing with pool payments to the FMMO. As organic farmers we should not be asked to fund a system that does not support our organic farming operations. The central question of how organic dairy fits in the FMMO system needs to be addressed at this hearing.

I understand USDA is here to decide FMMO pricing, and I do not believe organic milk belongs in the FMMO pricing system. Blake and I, along with 174 organic dairy farmers, signed a letter urging inclusion of proposed



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organic exemption in the hearing proceedings. USDA's response and rejection is insufficient and we believe in error. I urge USDA and Judge Strother to reconsider that decision, please.

I think it makes sense for the dairy industry to be more market-centered and encourage the development of new products. Dairy products and specifically organic dairy companies like ours have so much to offer consumers. I love milk and dairy and hope for a future where real dairy fills my neighbors' fridges. Cow's milk provides amazing nutrition, and I'd like more people to choose that over plant-juice.

The pasture-based, natural grazing lifestyles our cows enjoy helps satisfy people's concern about ethical treatment of the animals that give them food. We are completely transparent on our farm, and we invite everyone to come visit us and our cows and see where their milk comes from. Today we have hundreds of grateful customers who have found our A2 organic products and have shared their joy with us that they can drink dairy again.

But in order to be able to continue to thrive and provide our great products to consumers, we need to be released from the FMMO system so we can focus on producing great milk and dairy products.

Thank you for the opportunity to testify.

- Q. Thank you, Ms. Alexandre.
- MS. VULIN: The question witness is available for questioning.



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| 1 | MR. MUNCH: Hi, Stephanie. My name is Danny |
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| 2 | Munch. I'm with the American Farm Bureau Federation. I |
| 3 | just wanted to make a comment. We just wanted to thank |
| 4 | you and your family for your active involvement in |
| 5 | California Farm Bureau, and just we know how much time and |
| 6 | effort it takes to be an advocate and get involved in the |
| 7 | process, so we just wanted to thank you guys for that. |
| 8 | THE WITNESS: Thanks. You know we're very active |
| 9 | with our son, the president of our county, and my husband |
| 10 | is a past board Director and part of many committees. |
| 11 | MR. MUNCH: We appreciate that. Thank you for |
| 12 | being here today. |
| 13 | THE WITNESS: Thank you. |
| 14 | THE COURT: Questions from anyone else other than |
| 15 | AMS? |
| 16 | Seeing none, Ms. Taylor. |
| 17 | CROSS-EXAMINATION |
| 18 | BY MS. TAYLOR: |
| 19 | Q. Good morning, Ms. Alexandre. |
| 20 | A. Good morning. |
| 21 | Q. Thank you for joining us today. I want to give a |
| 22 | personal thank you for your bucket calf program. I myself |
| 23 | got into agriculture because I leased Jersey heifers to |
| 24 | show in 4-H. That was my first in into ag. So on behalf |
| 25 | of all the other kids that you have leased a calf to say |
| 26 | thank you. |



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ever imagine. We do it for our own personal reasons, the

Thank you. It brings us more joy than you can

joy of doing it.

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- Q. Just a couple questions on your operation.
- On the farm side, you sell your milk to yourself and then three other plants. Do these plants all produce organic product?
 - A. Yes, they do.
- Q. Okay. And then on your creamery side, do you buy any other farm milk or just bottle your own milk?
 - A. We just bottle our own milk.
- Q. Okay. And do you know how much of your milk -- I should -- I'm going out of order, and I apologize -- on your farm side, how much of your milk is sold -- eventually sold as organic product?
 - A. Pretty much 100%.
- Q. Okay. And you have already answered some of my questions in your statement.
- And I -- I think I know the answer to the other question, but I'll ask. On the risk management side of things, do you use utilize any risk management tools to help you?
- A. We greatly appreciate the Dairy Margin Coverage, but we do not do any insurance or other risk management.
 - O. Okay. Thank you.
 - A. Okay.
 - Q. And then you ship your milk to those other plants -- well, my first question is, is your creamery located pretty close to your farm?
 - A. It is not. It's about a seven-hour drive from our



farm.

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Q. Seven hours. Okay.

Well, for that haul -- I would call that definitely a haul -- can you talk about how your hauling costs may or may not have increased over the past few years?

- A. Yeah. I -- they have definitely increased, as other farmers have talked about. Fuel prices, being based in California, we actually own ten of our own trucks, along haul trucks or California hauls, and had to buy new because of the diesel regulations and also labor costs have increased considerably in California. So, yes, tremendous cost increase recently.
- Q. Okay. And your milk that goes to those other employee plants, how long is that haul for you?
- A. They are pretty close other than one of our customers, Organic West Milk, that's more of a haul -- a longer haul as well. But the other two, Rumiano Cheese and Humboldt Creamery, are in your communities.
 - Q. Okay.
- MS. TAYLOR: That's it from AMS. Thank you so much.
 - THE WITNESS: Thank you.
- MS. VULIN: Your Honor, I'd move for the admission of Exhibit 209.
- 26 THE COURT: Objections?
 - Seeing none, Exhibit 209, this witness' statement, is entered into the formal record of this proceeding.



| 1 | (Thereafter, Exhibit Number 209 was received |
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| 2 | into evidence.) |
| 3 | THE COURT: Thank you, Ms. Alexandre. |
| 4 | Really appreciate you testifying for us today. |
| 5 | THE WITNESS: Thank you. |
| 6 | THE COURT: You may stand down from the virtual |
| 7 | witness box. |
| 8 | MS. TAYLOR: Your Honor, we have four producers |
| 9 | remaining. I'm wondering if this is a good time for a |
| 10 | break. |
| 11 | THE COURT: Yes. |
| 12 | MS. TAYLOR: Okay. And so we will to those |
| 13 | producers still on Zoom listening, we'll start back how |
| 14 | long would you like |
| 15 | THE COURT: We'll start back at 1:50. Let's just |
| 16 | take ten minutes. |
| 17 | MS. TAYLOR: We'll start back at 1:50. And the |
| 18 | first producer up will be Nicole Barlass. Thank you. |
| 19 | THE COURT: Off the record. |
| 20 | (Whereupon, a break was taken.) |
| 21 | THE COURT: Let's come to order. |
| 22 | Who is next? |
| 23 | MS. TAYLOR: Your Honor, our first witness after |
| 24 | the break is Nicole Barlass. |
| 25 | THE COURT: Hello. My name is Channing Strother. |
| 26 | I'm the presiding judge in this matter, and my job now is |
| 27 | to swear you in. Please raise your right hand. |
| 28 | |



| 1 | NICOLE BARLASS, |
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| 2 | Being first duly sworn, was examined and |
| 3 | testified as follows: |
| 4 | THE COURT: Your witness. Or somebody's witness. |
| 5 | MS. TAYLOR: I'll take it. |
| 6 | Good morning or afternoon Wisconsin, so it |
| 7 | is afternoon for you. |
| 8 | Can you state and spell your name for the record? |
| 9 | THE WITNESS: Sure. My name is Nicole, |
| 10 | N-I-C-O-L-E, the last name Barlass, B-A-R-L-A-S-S. |
| 11 | MS. TAYLOR: And can you give a business address |
| 12 | for the record? |
| 13 | THE WITNESS: Sure. 2763 Manitowoc Road, Suite B, |
| 14 | and that's Green Bay, Wisconsin, 54311. |
| 15 | MS. TAYLOR: And you have an exhibit. I believe |
| 16 | it is online labeled Edge-7; is that correct? |
| 17 | THE WITNESS: That's correct. |
| 18 | MS. TAYLOR: Great. |
| 19 | Your Honor, if we could hold Exhibit Number 210 |
| 20 | for her exhibit? |
| 21 | THE COURT: Yes. Edge-7, when we get it, will be |
| 22 | marked for identification as 210. |
| 23 | (Thereafter, Exhibit Number 210 was marked |
| 24 | for identification.) |
| 25 | MS. TAYLOR: Ms. Barlass, if you'd go ahead and |
| 26 | read your statement in the record, and try to remember, we |
| 27 | have a court reporter here, so go a little bit slower. |
| 28 | Thank you. |



THE WITNESS: Okay. Perfect. Thank you.

My name is Nicole Barlass from Dusty Lane Farms,

LLC, in Sheboygan Falls, Wisconsin. We -- my family and I

milk 130 cows and farm about 1600 acres, raising corn,

soybean, wheat, and hay. We employ four part-time

employees in addition to our four family members, on our

farm, and support other numerous other area businesses.

Our family also owns and operates a trucking business that works with several local cooperatives and companies to haul feed, bedding, minerals, and non-agricultural products across the U.S.

Our milk is shipped to a local cheese manufacturer where it is made into soft white cheeses like provolone.

Our family does qualify under the definition of a small business of \$3.75 million in annual revenue.

In addition to my roles in the family businesses, I'm a member of many organizations, including the Dairy Business Association, Edge Dairy Farmer Cooperative, and Sheboygan County Farm Bureau. I currently serve as the president of our Wisconsin State Fair Dairy Promotion Board. I also sit on the county Farm Bureau's education and promotion committee, and lead sponsorship for our Sheboygan County Fairest of the Fair program.

I have been a national finalist in the Farm Bureau Discussion Meet contest back in my younger years, and in the Excellence in Agriculture award. I also served as Wisconsin's 59th Alice in Dairyland. I was a Wisconsin State FFA officer, and also spent several years teaching



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agriculture as an agricultural educator.

Outside of agriculture, I coach softball. For many years, I worked full-time positions off the farm in both ago education and for several dairy groups here in Wisconsin.

Here at home, we run a very lean hands-on operation from a labor standpoint from milking cows to harvesting grain. I believe this strategy and our diversification have kept our farm viable for all of these years.

But as we look to the future, we know that our farm size and management will dictate the need to explore other options, such as robotic milking systems due to labor limitations. If we do not, we may, unfortunately, reach a point where we sell the cows and focus solely on cash crops and the trucking business.

For us, risk management is an important part of how modern dairy farms operate as milk prices and costs can fluctuate up and down. One of the biggest hurdles producer price risk management has seen over the last few years has been more frequent negative PPDs, or Producer Price Differentials.

Proposals 16 and 17 submitted by Edge Dairy Farmer Cooperative aim to limit producer price risk exposure by eliminating advanced pricing, one of the most popular causes of negative PPDs.

I would like to finish today by thanking the USDA for this opportunity to testify at the hearing today



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| 1 | virtually. As I stated, we are a very hands-on farm, so |
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| 2 | taking time away to testify in person is not always |
| 3 | feasible. It is refreshing to have an increased emphasis |
| 4 | on the farmers' voice in this hearing. Thank you again. |
| 5 | THE COURT: Thank you for being here. |
| 6 | Any questions for this witness other than AMS? |
| 7 | Mr. Munch. |
| 8 | CROSS-EXAMINATION |
| 9 | BY MR. MUNCH: |
| 10 | Q. Hi, Nicole. My name is Danny Munch. I'm with the |
| 11 | American Farm Bureau Federation. I just wanted to thank |
| 12 | you for your involvement in Farm Bureau. |
| 13 | And I was curious, Edge co-op's Proposal |
| 14 | Number 17, which would remove advanced pricing, is |
| 15 | identical to American Farm Bureau Federation's |
| 16 | Proposal 18. The only difference is theirs includes a |
| 17 | switch back to the higher-of. |
| 18 | Were there any other AFBF proposals or Farm Bureau |
| 19 | proposals that you were able to review? |
| 20 | A. Not that I have, Danny, no. |
| 21 | Q. Okay. No worries. |
| 22 | And is there any when you look back at the past |
| 23 | few years and you think about disruptive market |
| 24 | conditions, what specifically did you see on your farm? |
| 25 | A. Yeah. I mean, definitely the last few years have |
| 26 | been rough from a milk pricing standpoint, obviously, why |
| 27 | we're here today. You know, I mean, the negative PPDs |



have impacted our farm drastically. You know, I just

| 1 | think having having an idea of what kind of pricing |
|---|--|
| 2 | we're going to face and how that can change so |
| 3 | drastically, it makes it very challenging to run and |
| 4 | operate our farms, you know, not knowing what's going to |
| 5 | be coming in. So so I would say, you know, obviously |
| 6 | milk pricing, again, why we're all here, has been probably |
| 7 | the biggest hurdle our farm has been faced with. |

- And with that, would you -- would you characterize O. depooling and negative PPDs as a form of disorderly marketing?
 - Α. Yes.

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- MR. MUNCH: Thank you.
- 13 THE COURT: Anyone else? Other than AMS?
- 14 Ms. Taylor.
 - CROSS-EXAMINATION
- BY MS. TAYLOR: 16
 - Ο. Thanks again for joining us today. I just have a few questions for you.
 - Your statement says you support the Edge Proposals 16 and 17, but I don't think it -- oh, it does say you're an Edge Dairy Farmer co-op member. I just wanted to double-check that that was clear.
 - Yep, we are. Yeah.
 - Okay. And then you talked about the impact of Ο. negative PPDs on risk management.
 - Could you talk a little bit about if your farm utilizes risk management tools and what those are?
 - Α. So like many on the call earlier today --Yeah.



- or that testified so far, we do use DMC as our primary
 risk management tool at this time, but have had internal
 discussions about, you know, other options. I think
 that's really what allows our farms to be viable right
 now.
 - Q. Okay. But right now you only use DMC?
- 7 A. DMC, yes.

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- Q. Have you used others in the past?
- A. No, primarily DMC.
- 10 Q. Okay. Thank you.
- And your milk goes to a cheese plant; is that correct?
- 13 A. Correct. Yes.
 - Q. And how long is the haul to that plant?
- 15 A. Yeah. So ours is actually very close. I would 16 say it's 15 to 20 miles.
 - Q. Okay. You do have a short haul, but I'll ask the same questions I've asked others. Have you seen the cost of that haul increase over recent years?
 - A. Yeah. So, again, contrary to others, we're extremely fortunate that our private cheese plant actually does cover hauling charges. But I know just in talking to other Edge members, I mean, it has been crazy how much hauling charges have increased for people. I think we have seen between 40 to \$0.70 per hundredweight, with some small farms evening seeing \$1 to \$2 per hundredweight increase. So, you know, from a small farm standpoint, that can really make a difference between stay in business



| 1 | and not. |
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| 2 | MS. TAYLOR: Thank you. I think that's all the |
| 3 | questions from AMS. |
| 4 | THE COURT: Okay. So the exhibit will be moved |
| 5 | into evidence when we have hard copies of it, next week |
| 6 | sometime, and thank you very much for coming to us |
| 7 | virtually today. You are excused |
| 8 | THE WITNESS: Thank you for having me. |
| 9 | THE COURT: You are excused from the virtual |
| 10 | stand. Thanks again. |
| 11 | Next witness. |
| 12 | MS. TAYLOR: Yep. Next on the list is Christina |
| 13 | Zuiderveen. And I hope I'm saying that correctly. |
| 14 | I believe for those here in the room and watching |
| 15 | her statement is Edge-10 on the website. |
| 16 | There you are. |
| 17 | THE COURT: Hi, I'm Judge Strother. I preside |
| 18 | over this proceeding, and my job right now is to swear you |
| 19 | in. So if you would kindly raise your right hand. |
| 20 | CHRISTINA ZUIDERVEEN, |
| 21 | Being first duly sworn, was examined and |
| 22 | testified as follows: |
| 23 | THE COURT: Your witness. |
| 24 | MS. TAYLOR: Good morning or good afternoon, I |
| 25 | should say. Can you state and spell your name for the |
| 26 | record? |
| 27 | THE WITNESS: Christina, C-H-R-I-S-T-I-N-A, |
| 28 | Zuiderveen Z-II-I-D-E-R-V-E-E-N |



| 1 | MS. TAYLOR: And can you give us a business |
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| 2 | address? |
| 3 | THE WITNESS: 2763 Manitowoc Road, Suite B, Green |
| 4 | Bay, Wisconsin, 54311. |
| 5 | MS. TAYLOR: Thank you. And I believe you |
| 6 | submitted a statement electronically that's marked |
| 7 | Edge-10; is that correct? |
| 8 | THE WITNESS: That's correct. |
| 9 | MS. TAYLOR: So if we could hold the next Exhibit |
| 10 | Number 211 |
| 11 | THE COURT: Yes. |
| 12 | MS. TAYLOR: for that statement. |
| 13 | THE COURT: Exhibit Edge-10 will be marked |
| 14 | Exhibit 211. |
| 15 | (Thereafter, Exhibit Number 211 was marked |
| 16 | for identification.) |
| 17 | MS. TAYLOR: Thank you, your Honor. |
| 18 | All right. If you would like to read your |
| 19 | statement into the record. |
| 20 | THE WITNESS: Sure. |
| 21 | My name is Christina Zuiderveen. Two years ago |
| 22 | today, I sat before the Senate ag subcommittee to give my |
| 23 | testimony calling for changes to the milk pricing formula. |
| 24 | I'm happy to see the legislative process working and to |
| 25 | continue my efforts to create a level playing field for |
| 26 | dairymen in the Central Plains and across the country. |
| 27 | I have previously served on the Central Plains |
| 28 | Dairy Expo board and currently serve on the Iowa State |



Dairy Association board, as well as the Edge Dairy Farmer Cooperative Committee on Political Affairs. Through these organizations, I have actively advocated for dairymen on both the state and federal levels.

I am a managing partner at Black Soil Dairy in Northwest Iowa and Dakota Plains and Mount Hope Dairies in Southeast South Dakota. Across these three locations, we milk 15,000 cows and employ approximately 100 people. My husband and I and our three children live in Iowa and work closely with my brother and his family, who live in South Dakota.

The growth of dairy in the I-29 corridor has been fueled by ample land available to provide feed for our livestock, as well as states that have given agricultural businesses fair environmental and regulatory policies. These conditions made us want to start our businesses here, but the supportive communities are a great place to raise our family and are what keep us in the Central Plains.

We use both owned and rented land to grow corn, beans, and alfalfa, as well as a bit of cover cropping to provide forage for our cattle. Our South Dakota location has an operating digester while we are still in the construction phase in Iowa.

In the last few years, we have begun to improve the genetics of our cattle through an embryo program that we are developing with reproductive specialists within the industry. We have continually increased the net merit and



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cheese merit of our cattle and improved our milk components through this technology.

We are members of Edge, the third largest milk cooperative in the US by total milk volume. All three farm locations are within Federal Order 32 and ship to a privately owned cheese processor; therefore, our milk check is primarily based on Class III pricing.

When I testified two years ago, my family in Michigan, whose milk check is based on a blend of markets, including Class IV, struggled with low milk prices due to government food programs, depooling, and PPDs. Since then, the markets have flipped with negative PPDs affecting Class III and positive PPDs within Class IV markets, finally evening out into relatively equal prices for both markets today. These significant differences and market volatilities are one of the reasons we are pushing for changes to the milk pricing formula.

With these things in mind, I support Edge's Proposals 16 and 17, which will aid in updating the milk price formula to reflect the current product mix as well as creating a more predictable pricing structure for all classes and orders. A more predictable pricing structure is important so dairymen can effectively manage their risk through hedging and programs like DRP.

I would consider DRP one of the best tools the government has given dairymen to manage their risk.

Before DRP, we would sell futures to guarantee our income, but we had to temper this decision with the chance that



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the milk price would continue to rise. DRP allows us to protect income for up to 15 months without missing out on the upside.

Another positive of the DRP program is that it is fair to all sizes, as there are no program caps. With the size of our farm, we meet the DMC production caps in less than a week, and there is not enough liquidity in the market to purchase options to cover all our milk at one time. Having the ability to estimate our longer-term income helps us make better decisions on our farm today so that we can reach our growth goals in the future. Any lapse in the coverage through this program could negatively affect us and many other farms.

My husband and I can both trace our roots to dairy farmers in the Netherlands who immigrated to the United States because of religious freedom and the promise of greater opportunities for themselves and their families. With the help of DRP and updates to the milk price formula, I hope that our dairy can continue to the next generation and beyond.

Thank you for again giving me the opportunity to take part in this process as we work together as an industry to continue creating safe and nutritious products to feed the world.

THE COURT: Questions for this witness?

CROSS-EXAMINATION

BY MR. MUNCH:

Q. Hi, Christina. My name is Danny Munch. I'm with



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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 American Farm Bureau Federation. 2. Is there any chance you are a Farm Bureau member? 3 Α. We are not. No problem. When you think about -- you mentioned 4 Ο. negative PPDs. Would you consider that and any other 5 dynamics disorderly marketing? 6 7 Α. Yeah. As a producer, I don't necessarily have any influence on the marketing decisions that our processors 8 9 make, so it is hard to define exactly what disorderly 10 marketing is. However, we do see these differences in the 11 farm gate prices between us and our neighbors, and we are 12 acutely aware of the results of these actions. 13 MR. MUNCH: Thank you. 14 THE COURT: Anyone else other than AMS? 15 AMS. 16 CROSS-EXAMINATION 17 BY MS. TAYLOR: 18 This is Erin Taylor with AMS. Thank you for 0. 19 testifying virtually today. 2.0 Uh-huh. Α. 2.1 You mentioned you had three farms in Iowa and Ο. 22 South Dakota. 23 Α. Correct. 24 Would any of those farms be considered a small 25 business by the Small Business definition I provided 26 earlier and you might have heard? 27 Α. While we don't qualify as a Small Business by



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income, we are very much a family farm.

What is net merit in cheese merit?

- A. The net merit and cheese merit are scores that they give based on the genetics of a cow and their potential to produce offspring. The cheese merit is specifically for Jersey cattle, I believe, and it focuses on the -- how much cream they would produce and the components. So it is a way to rate your cattle genetically with an embryo program.
- Q. Okay. So it looks like DRP is your primary risk management tool that you use; is that correct?
- A. That's correct. We do keep an eye on the futures market, but DRP has been in the -- since that has been around, that has been our primary risk management tool.
- Q. And your statement says you like to look for protection for up to 15 months out, and I'm curious if you would -- if you might expand on how much of your production do you look to lock in?
- A. It really depends on the opportunities that are out there. We do look about 15 months out. What we have typically purchased based on our needs is about a year out. But we're not against opportunities further than that. And I would say we hedge 50 to 100% of our milk depending on what those options are.
 - O. Thanks.

You do talk about on page 1 -- you talk about your



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family's Michigan farm. So that's not your Iowa and your South Dakota farms?

- A. That's correct. I grew up part of my life in Michigan, and my husband is also from Michigan, and we still have family that dairies there. My husband and I moved out to Iowa a little over ten years ago, and my brother has since joined us about an hour away in South Dakota.
- Q. Okay. And so you talk about your family's experience on negative PPDs. But can you talk about your specific experience on your farms?
- A. Sure. So that was sort of in reference to my testimony before this subcommittee two years ago. I used that as an example. At that time, we here in Iowa and South Dakota were -- we were getting a great milk price, partially due to the government food programs from COVID purchasing a lot of cheese, which is the market that we are shipping to.

In Michigan, my families were experiencing extremely large PPDs because they do not -- they are not based primarily on that Class III market.

- 0. Okay.
- A. And now we are seeing some of those PPDs, although not as extreme as two years ago for either of us, but we are seeing the negatives, and the milk price in Michigan is better.
- Q. Okay. And can you talk a little bit about how your milk check is determined. Is your milk pool -- you



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say it goes to cheese. Do you know if your milk is pooled or not pooled?

- A. Our milk will be pooled at the discretion of our processors. That's not a decision I get to make.
 - Q. Right. But do you know if it is pooled or not?
- A. I don't know what this month's pooling numbers are, but they have been known to depool at their discretion.
- Q. Okay. And for the cheese plant you ship your milk for, how long is that haul?
- A. So they have -- they own three processing plants. The closest one is 30 miles, and the majority of our milk goes there. A few years ago before they had upped the capacity there, and on occasion now when equipment is down, the other two plants are about 180 miles away.
- Q. Okay. And over the past few years have you seen your hauling costs increase at all?
 - A. Yes.

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- Q. And you pay for those hauls; is that right? I know we have had a producer that's testified that their proprietary plant pays for that. Which is it in your case?
- A. So it's kind of a mix. We get a hauling subsidy, which does not fully cover the cost, but it does cover some of our hauling costs. But the -- I would say the percentage that they have covered in the last few years has gone down.
 - Q. Okay. Thank you. You answered my next question



| 1 | before I asked it. |
|----|---|
| 2 | MS. TAYLOR: I think that's it from AMS. Thank |
| 3 | you so much. |
| 4 | THE WITNESS: Yes, thank you. |
| 5 | THE COURT: Anything else? |
| 6 | We'll we've marked Exhibit 211. And I think I |
| 7 | lost some data just now. And we'll hold that for |
| 8 | admission until we have hard copies next week. |
| 9 | Thank you very much. Appreciate you coming out |
| 10 | virtually. You may stand down. |
| 11 | MS. TAYLOR: Thank you. Your Honor, the next |
| 12 | witness is Brian Hemann. |
| 13 | THE COURT: Hi, Mr. Hemann. Can you hear me? |
| 14 | THE WITNESS: Hi. |
| 15 | THE COURT: My name Channing Strother, and I'm the |
| 16 | presiding judge at this hearing. When you are settled in, |
| 17 | if you could raise your right hand, I'll swear you in. |
| 18 | BRIAN HEMANN, |
| 19 | Being first duly sworn, was examined and |
| 20 | testified as follows: |
| 21 | THE COURT: Your witness. |
| 22 | DIRECT EXAMINATION |
| 23 | BY MR. PROWANT: |
| 24 | Q. Good afternoon, sir. Bradley Prowant on behalf of |
| 25 | National Milk. |
| 26 | Could you please state and spell your name and |
| 27 | provide a business address? |
| 28 | A. Yes. My name is Brian, B-R-I-A-N, Hemann, |



- 1 H-E-M-A-N-N. My address is 813 8th Street, Suite 300, 2 Wichita Falls, Texas, 76301.
 - Q. Mr. Hemann, did you prepare a written testimony labeled Exhibit LSMP-3?
 - A. Yes, I did.

MR. PROWANT: Your Honor, if we could please mark that as Exhibit 212.

THE COURT: So marked.

(Thereafter, Exhibit Number 212 was marked for identification.)

11 | BY MR. PROWANT:

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- 12 Q. Mr. Hemann, could you please read your statement 13 for us?
 - A. Yes.

Ladies and gentlemen, my name is Brian Hemann, a lifelong dairy farmer from Kansas. I operate four farms in Southwestern Kansas and the Oklahoma Panhandle. I am president of the Board of Directors of Lone Star Milk Producers, Inc. Lone Star is a member of the National Milk Producers Federation (NMPF). Today, I come before you representing Lone Star Milk Producers, and both Lone Star and I fully support National Milk Producers Federation Proposal Number 13.

The proposal aims to address the critical issue surrounding the evolution of the current Class I mover. As an organization deeply invested in the dairy industry, we have witnessed firsthand the detrimental effects of the current Class I mover on our cooperative and the dairy



farmers we represent. It is imperative that we bring attention to this matter and advocate for a swift resolution.

Federal Order Reform introduced a new Class I mover based on the higher-of the Advanced Class III or Class IV skim milk prices to accurately reflect milk value and ensure equity among dairy farmers. It aimed to prevent shifts in demand from lowering Class I prices and reducing volatility.

However, the 2018 Agriculture Improvement Act changed the formula to the average of the Advanced Class III and Class IV skim milk prices plus a fixed \$0.74 per hundredweight differential, leading to Class I revenue losses when the spread between the advanced prices exceeds \$1.48 per hundredweight.

My farm risk management strategy is built on the ability to forecast Federal Order Blend Prices and blend price changes. The current formula disrupts blend price forecasting due to the significant increase in the incidence of depooling and hinders my effective hedging against the blend price, causing instability and financial vulnerability for my dairy farms. Other Lone Star members also have experienced the same hedging difficulties and we all have felt the impact of lower Class I prices in our monthly milk checks.

In light of the adverse consequences that have emerged from the current Class I mover formula, it is of utmost importance that we take immediate action to rectify



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the situation. The implications of the existing formula, with its inherent flaws and unintended consequences, have had a profound and detrimental impact on dairy farmers and the stability of the industry as a whole.

Therefore, I and Lone Star Milk Producers wholeheartedly support the proposal put forth by National Milk Producers Federation to return to the original Class I mover, which is the higher-of Class III and Class IV skim milk formula, as initially adopted in Federal Order Reform. The reasons that justified this decision when it was first implemented remain valid in contemporary dairy markets and will continue to hold relevance moving forward.

In conclusion, I urge the Secretary to adopt
Proposal Number 13. By reinstating the higher-of formula,
we can accurately reflect the value of different milk
categories, reduce volatility in blend prices, and address
disorderly marketing conditions that impact my own farms.
The return to the highest mover formula will allow me to
execute the risk management strategies that suit my farm
operations. This amendment will also restore competitive
equity among dairy farmers and regulated handlers while
ensuring a fair and stable pricing system as a necessary
tool to effectively hedge against market fluctuations and
manage their price risk.

Thank you for the opportunity to present this testimony, and I wholeheartedly support adopting Proposal Number 13 for the betterment of our dairy industry and the



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hardworking individuals it represents. Thank you.

- Q. Thank you, Mr. Hemann. Just a few questions for you here.
 - A. Uh-huh.

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- Q. Your testimony spoke about Proposal 13.

 Do you support all of National Milk's proposals?
- A. Yes, I do.
- Q. Okay. And then my other questions you can probably foresee.

You mentioned that you operate four farms. Do any of those meet the small business definition --

- A. No, they do not. We are all family farms, but they don't meet the definition as described.
- Q. Okay. And then you mentioned risk management throughout your statement. Could you just elaborate on which risk management strategies you utilize?
- A. So currently we, basically, use DRP, and then we use some options strategy against that.

Before DRP was available we were using both futures and option callers. But just to our statement, when we had -- through COVID and we've increased these spreads, what was happening is we -- let's just say we have used a Class III futures strategy that in all purposes would have guaranteed us a certain price, but when there was depooling taking place, we may have hedged on the Class III market, and then our blend price didn't even include a Class III because it was depooled from the -- from that. So currently, most of our hedging is



1 DRP. 2. Ο. All right. Thank you, Mr. Hemann. The witness is available for 3 MR. PROWANT: 4 questions. 5 CROSS-EXAMINATION BY MR. MUNCH: 6 7 Ο. Hi, Brian. My name is Danny Munch with the 8 American Farm Bureau Federation. 9 Are you by any chance a Farm Bureau member? 10 No, we are not right now. Α. 11 Ο. Over the past few years can you talk about some of 12 the market disruptions specific to your farm or your 13 neighbors' farms and how that impacted you? 14 Like I said earlier, really the increased 15 incidence of depooling, which -- which like I stated was 16 affected by the change in the Class I because it allowed 17 those differences to occur, basically made it -- made our 18 risk management much harder because we didn't -- we could 19 be anywhere from 0% to 50%, 60%, say, Class III or 2.0 Class IV depending on -- on the differences. 2.1 And so by -- by changing the Class I formula, 22 which hopefully then would limit the amount of time 23 depooling takes place, we could actually increase our 24 ability to use other market tools besides DRP as well for 25 hedging.

- Q. Would you agree that minimizing incentives to depool is a good thing?
 - A. Yes. I would totally agree.



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Q. Because American Farm Bureau is also strongly in support of NMPF Proposal Number 13, so we thank you for that.

MR. MUNCH: Thank you.

THE WITNESS: Uh-huh.

THE COURT: Mr. Rosenbaum.

CROSS-EXAMINATION

BY MR. ROSENBAUM:

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Q. This is Steve Rosenbaum for the International Dairy Foods Association.

Did you utilize a combination of Class III and Class IV futures to hedge the risks regarding the Class I mover during the time period starting in 2018 when the Class I mover became the average of those two plus \$0.74?

- A. Yes. We would do -- we originally -- that was our first foray into that, and so our initial interpretation that it would make it easy to do 50% and 50%. But because of depooling and then, you know, as we all know went through COVID where there was -- there was unintended consequences due to the government intervention, it turned out that you could have 50% of your milk hedged on a market that -- that did not collect from that Class III or Class -- since the Class III market. I mean, it's -- luckily our banks didn't do it, but if they ever looked into it, we actually were -- had hedges on that weren't a hedge, so it turned into a speculative position.
- Q. And that's because of the depooling you are describing or --



A. Yes, sir.

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- 2 Q. Okay. And -- okay.
 - And who do --
 - A. Basically more to calculate if you are going to have a class -- how much -- what percent of your milk is Class III and Class IV.
 - Q. All right. And who -- who are you selling to?
 Was it --
 - A. We market our milk through the Lone Star Milk Cooperative.
 - Q. And who were -- I mean, were they the -- were they the handler who was deciding whether to pool or depool?
- 13 A. No.
- 14 O. Okay.
- 15 A. It was our customers.
 - Q. Okay. And were they -- were they co-ops themselves or --
 - A. No. Different -- different -- different Class III plants and stuff. And so we even -- even within the Federal Orders, so -- as you know, so within the Federal Order system, if a Class III plant or a Class IV plant decide to depool, that's no longer the pooling price, so it changes our pool price.
 - Q. Okay. All right. But were you protecting the -and to the extent you were trying to protect the Class I
 components, you were effectively doing that, and it was
 the depooling that was hitting you; is that what was going
 on?



- A. Yes. I -- I mean our total I guess would just depend on our blend price. So by effect, it changes the percentage of whether class -- of what Class III and Class IV was in there. So the Class I component allows a greater different- -- or more incentive, possibly, to depool, or the higher-of that's not.
- Q. Right. Okay. Were you involved in the decision-making by National Milk to support the change from higher-of to the average?
- A. I was not directly involved. Our co-op was involved in that.
 - Q. Okay.
- MR. ROSENBAUM: That's all I have. Thank you.
- 14 THE WITNESS: Thank you.
- 15 THE COURT: Anyone else?
- 16 AMS.

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17 CROSS-EXAMINATION

- 18 BY MS. TAYLOR:
- 19 Q. Good afternoon. Thank you for joining us to 20 testify virtually today.
- 21 A. Thank you.
- Q. I know you are a member of Lone Star. Do you
 know -- but I think I just picked up that your milk goes
 to a proprietary plant?
 - A. No. It goes to the -- it goes wherever Lone Star directs it. Certain times it can but --
 - O. Okay. Do you know where your milk typically goes?
 - A. Sometimes it goes to the Class I market.



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Q. Okay. Thank you.

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And so what would you say your average haul is to get your milk to one of those plants, or a range --

A. Depending on -- oh, excuse me.

Well, actually, some days it can be just as few as 12 miles, and sometimes it can be up to 500 miles. So we service different plants, and that is just based on logistics of where milk needs to go.

- Q. And have you seen your cost of hauling that milk increase over the past few years?
- A. Yes. That has affected our pay price, especially servicing the Class I plants, because if we service plants that are further away, that has exponentially increased over the last few years.
- Q. And is the Class I plant your milk goes to one of those further away locations?
 - A. Yes.
- Q. Okay. And I had similar questions to Mr. Rosenbaum on the -- on page 2 talking about how depooling impacts your risk management strategy, and I just want to make sure I'm clear.

So you could forecast better when it was the higher-of, because there was less depooling; is that accurate?

A. Yes. And -- and so by that point, if you are



1 getting the higher-of, if you hedge -- if you hedged say 2. Class III, you know you are at least going to collect Class III equivalent or better. So if Class IV becomes 3 4 the higher-of, you are going to get a better pay price, so it is not going to negatively affect your -- your net 5 6 difference on -- with your hedges included. 7 Ο. Okay. Okay. Or depooling -- so I quess to better explain, just 8 Α. 9 for simplicity, let's just say you were 33% -- 33% 10 Class III, 33% Class IV, and 33% Class I. Well, if --11 if -- if all the Class III in that market is depooled, 12 then all the sudden you have -- your blend price changes 13 drastically and there is very little Class III that is 14 part of your formula, except where that, say, 15 to 16% 15 that would be tied to the current Class I formula. 16 Q. Okay. 17 MS. TAYLOR: I think that's all the questions from 18 AMS. Thank you very much. 19 THE WITNESS: Thank you. 20 MR. PROWANT: Your Honor, we'd move for admission 2.1 of Exhibit 212. 22 THE COURT: Any objections? 23 Exhibit 212 is made a part of this hearing record. 24 (Thereafter, Exhibit Number 212 was received 25 into evidence.) 26 THE COURT: Thank you, sir. Thank you for joining 27 us virtually today.



THE WITNESS:

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Thank you.

| 1 | MS. TAYLOR: Okay. It looks like the last |
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| 2 | producer we have for today is Paul Cornette. And we'll |
| 3 | bring Paul to the virtual stage. |
| 4 | Mr. Cornette, you can hear us? |
| 5 | THE WITNESS: I can. Thanks. |
| 6 | MS. TAYLOR: We can hear you. |
| 7 | Your Honor. |
| 8 | THE COURT: I'm Channing Strother. I'm the |
| 9 | presiding judge at this proceeding. I'm here right now to |
| 10 | swear you in. So if you would kindly raise your right |
| 11 | hand. |
| 12 | PAUL CORNETTE, |
| 13 | Being first duly sworn, was examined and |
| 14 | testified as follows: |
| 15 | THE COURT: Your witness. |
| 16 | MS. TAYLOR: Good afternoon. Could you spell |
| 17 | say and spell your name for the record? |
| 18 | THE WITNESS: Yeah. My name is Paul, P-A-U-L, |
| 19 | Cornette, C-O-R-N-E-T-T-E. |
| 20 | MS. TAYLOR: Thank you. And can you give us a |
| 21 | business address? |
| 22 | THE WITNESS: 2763 Manitowoc Road, Suite B, Green |
| 23 | Bay, Wisconsin, 54311. |
| 24 | MS. TAYLOR: Thank you. |
| 25 | And have you prepared a statement marked as |
| 26 | Edge-8? |
| 27 | THE WITNESS: Yes, I have. |
| 28 | MS. TAYLOR: So, your Honor, if we could have that |



next exhibit number held for him. I think that would be 1 2. 213. THE COURT: Yes. Edge-8 will be marked for 3 identification as 213. 4 (Thereafter, Exhibit Number 213 was marked 5 for identification.) 6 7 MS. TAYLOR: Thank you. And, Mr. Cornette, if you would like to go ahead 8 9 and give your statement. 10 THE WITNESS: I'd like to thank everyone for this 11 opportunity today, especially the virtual component. 12 is nice to participate and be able to get my work done 13 today. 14 I apologize in advance for any possible background 15 There's farming going on over my left shoulder, 16 and throughout the last two hours there have been some 17 cows who have wanted to have their voices heard today too, 18 so we'll see what happens with them. 19 My name is Paul Cornette. My brother and I co-own 2.0 and operate Cornette Dairy in Luxemburg, Wisconsin. 2.1 dad bought the current farmstead in 1972, making us the 22 second generation here. However, we still operate both 23 sets of grandparents' farmsteads, and through that 24 connection we are operating some land that has been in our

We currently milk about 425 cows with six Lely Robots. In 2017, we built a new freestall barn and

family since the late 1800s. And we're very proud of



that.

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retrofitted an older freestall and made the switch to 100% free-flow autonomous milking. We raise our replacements from birth until about four months, after which they go to a heifer-raising farm, also here in Eastern Wisconsin, and they return about two months before calving. All said, we raise about 500 head here on site.

We farm just under 1,000 acres, raising alfalfa, corn, winter wheat, and soybeans. Most years this provides enough feed, forages, and enough -- all of our own shell corn rather. We run our farm with just two full-time employees and four retired part-timers who help us with harvesting.

We are strong supporters of the local economy and partner with many local businesses, including feed mills, nutritionists, equipment dealers, veterinarians and others. And we ship our milk to a privately-owned cheese plant just 11 miles from our farm, where it is made into award-winning mozzarella and provolone cheese.

Our farm also firmly believes in practicing sustainability through innovative practices and technology. We utilize cover cropping, no-till planting, strip tillage, nitrogen fertilizers, stabilizers, and more.

I've got the privilege of serving on the board of my local farmer-led watershed conservation group,
Peninsula Pride Farms. And I'm the vice president of
Farmers for Sustainable Food, a non-profit organization
created to unite, inspire and empower farmer-led



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conservation groups across the Upper Midwest.

For the hearing record, our farm would have qualified in 2022 under the small business definition of \$3.75 million in annual revenue.

I use DMC and DRP as price protection tools. On a farm my size, the 5-million-pound tier in DMC is very helpful. The high coverage level there is able to cover about 40% of our production for a relatively good value. And I'd consider that to be the cornerstone of my hedging strategy.

I then add on to the coverage using DRP when a consultant and I feel the timing and the value might be good in that market. I think the two programs complement each other quite well, at least for sort of a medium size farm like we are.

To truly protect a dairy farm's revenue, the time, in my opinion, to enroll in these programs is usually six to 12 months out. That makes consistency in the implementation and funding of these programs critical to avoid costly lapses in coverage, missed buying opportunities, or simply poor purchases that wind up being wasted money. Any changes made to the Federal Order program, I think, must consider the impacts on risk management options for farmers.

I also want to testify today in support of Proposals 16 and 17, submitted by Edge Dairy Farmer Co-op, that further enhance a farmer's ability to effectively manage price risk. Negative PPDs adversely affect the



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| farmers' ability to effectively hedge price risk. Ed | lge's |
|---|-------|
| Proposal Number 16, which implements the Class III Pl | lus |
| pricing mechanism for the Class I skim milk price | |
| calculation, allows us to use the dairy industry's mo | ost |
| traded commodity to set pricing. Edge advocates for | this |
| because cheese is the active market in the United Sta | ates. |

In closing, I'd like to thank USDA and AMS for providing these opportunities for farmers to share our voices throughout this hearing, and, again, the added flexibility to provide virtual testimony really saves us time and money and preserves our ability to speak up on issues that are important to us.

Thank you again, and I am available for my questions.

THE COURT: Any questions other than AMS for this witness?

CROSS-EXAMINATION

BY MR. MUNCH:

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Q. Good afternoon, Paul. My name is Danny Munch with the American Farm Bureau Federation.

Is there any chance you are a Farm Bureau member?

- A. Yeah, our farm's a Farm Bureau member.
- Q. Well, thank you for that.

You talked about depooling and negative PPDs.

Would you consider those forms of disorderly marketing in your opinion?

A. Yes. Negative PPDs are the real wild card, and they are hard to account for when you are trying to



| | NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING |
|----|---|
| 1 | predict or protect the downside in the milk markets, no |
| 2 | doubt. |
| 3 | Q. Thank you. |
| 4 | And AFBF's proposal is almost identical to Edge's |
| 5 | proposal to remove advanced pricing, so we appreciate your |
| 6 | support of that. Thank you. |
| 7 | MR. MUNCH: I also just wanted to put on the |
| 8 | record, I forgot to ask Steve Pierson if he was a Farm |
| 9 | Bureau member, and he is. So thank you. If you are still |
| 10 | listening, of Oregon Farm Bureau. |
| 11 | But thank you. |
| 12 | THE COURT: Any other questions for non-AMS |
| 13 | representatives? |
| 14 | Seeing none, Ms. Taylor. |
| 15 | CROSS-EXAMINATION |
| 16 | BY MS. TAYLOR: |
| 17 | Q. Thanks for joining us today to testify virtually. |
| 18 | Appreciate you taking the time. |
| 19 | A. You're welcome. |
| 20 | Q. You're supporting 16 and 17, and both of those, |
| 21 | they look at one is the Class III plus pricing model, |
| 22 | and one's returning to the higher-of model. |
| 23 | Do you have a preference as it relates to since |
| 24 | your testimony talks a bit about your ability to use risk |
| 25 | management tools, which one would be easier for you? |
| 26 | A. Well, I don't have a real intricate working |
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knowledge of 16 and 17. My -- my understanding, at least

of the overview of those proposals, is that 16 is a little

more straightforward and easy to understand. And for those reasons, I would pick 16.

Q. It seems like a good reason. Thank you.

And the witness before you talked a bit about, it was something that was kind of a new aspect I think that hadn't been discussed yet about how depooling impacts their ability to hedge.

Do you have a similar sentiment on that piece?

- A. Indirectly, yes. I mean, the -- de- -- like a lot of other witnesses have said today, depooling is sort of out of our control as farmers. But when it winds up resulting in a PPD, it's -- a negative PPD, I should say, we just can't account for that in the hedging strategy, at least not using DRP. It is -- yeah. It's -- it just -- it comes in at the last minute, and if it's -- if it's negative, what you thought may have been an \$18 floor, is only 17 or 17.50, and in a circumstance like that, that can make all the difference.
- Q. Uh-huh. Considering farm margins are so small as it is.
 - A. Yes.
 - O. Yeah.
 - A. Especially with rising inflation, yeah.
- Q. I don't know if you indicated. Where does your milk go now?
 - A. To the Agropur plant. It's a cheese plant nearby in Luxemburg.
 - Q. So then you have a pretty short haul?



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- O. The shortest haul today, by I think a mile.
- A. 11 -- oh, yeah, yeah. I understand you. Yeah.
- Q. Even with that short of a haul -- do you pay for the haul, or is that subsidized through your buyer?
- A. We are on a stop charge system from the dairy plant, so it's not a -- it's not a true cost of trucking, but we do get a charge. That charge went up about a year ago, maybe it was, and it was -- it was a substantial increase above what it was before. But we're fortunate that trucking is not a back breaker for us.
- MS. TAYLOR: That's it today from AMS. Thank you very much.
- THE COURT: Anyone else have any questions?
- Okay. With that, we have reserved Exhibit

 Number 213 for Edge-8, and we'll mark it and move it for introduction into the record when we have hard copies.
- Thank you so much, Mr. Cornette. I appreciate you coming in here virtually, and we're all grateful to hear from you.
- THE WITNESS: Thank you.
- 22 THE COURT: Good day, sir.
- 23 THE WITNESS: Good day.
 - MS. TAYLOR: Your Honor, if we could -- I think that's it for today. We don't have any farmers left online to testify, and I don't think there's anyone left in the room. But I would like to talk a little bit about who we have on Monday.



THE COURT: Should we go off the record for that?

MS. TAYLOR: I think it's pretty well set, so we can stay on the record.

THE COURT: Okay. Go ahead and spell it out for

MS. TAYLOR: I'm sure someone will tell me if I'm incorrect.

So on Monday we'll have Mike Brown from IDFA.

And then we will move on to the other set of proposals on yields that's being offered by Select. They have a number of witnesses, and I am not sure the order of those, but I'm sure we'll move into those.

I have the names: Chris Allen, Harmoni Campbell, Cheslie Stehouwer, Steve Cooper, and Dr. Farkye, I think. And I profusely apologize for mispronouncing anyone's names. Those are the Select witnesses, so I'm not sure the order of those. I do believe all their statements are online for people to read over the weekend.

We will have Mr. Munch from American Farm Bureau returning on Tuesday to testify, so we will get him on the stand on Tuesday, so we need to all be flexible to allow him to do that. He'll be coming back.

As for Mr. Umhoefer, who is our one Wisconsin Cheese Maker witness that was unable to testify this week, he will be returning to testify on September 26th, so he will not be here next week. He'll be here the following week on the 26th, and he would like to testify in the morning, so if we could all just, if appropriately, allow



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| 1 | that to happen. |
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| 2 | And we also have two USDA exhibits that still need |
| 3 | to get on the record. I don't think we'll have a witness |
| 4 | here that will be able to put those on next week, but |
| 5 | we'll do it the following week, just to keep everybody up |
| 6 | to date. |
| 7 | And that is all I have. |
| 8 | THE COURT: Very well. Just I'm writing things |
| 9 | down. Do you happen to have those exhibit numbers. |
| 10 | MS. TAYLOR: I do not. I do not. I'm sorry. |
| 11 | THE COURT: No need. |
| 12 | MS. TAYLOR: And next week, we are not we are |
| 13 | meeting Monday, Tuesday, and Wednesday. There will be no |
| 14 | hearing on Thursday and Friday. And we will not have |
| 15 | dairy farmer virtual testimony next week. So we will go |
| 16 | Monday to Wednesday, full days. |
| 17 | THE COURT: Very well. Anything else? Anyone? |
| 18 | Okay. Seeing none, with that, we're adjourned. |
| 19 | We'll see everyone on Monday at 8:00 a.m. Have a great |
| 20 | weekend. |
| 21 | (Whereupon, the proceedings were concluded.) |
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| 1 | STATE OF CALIFORNIA)) ss |
| 2 | COUNTY OF FRESNO) |
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| 4 | I, MYRA A. PISH, Certified Shorthand Reporter, do |
| 5 | hereby certify that the foregoing pages comprise a full, |
| 6 | true and correct transcript of my shorthand notes, and a |
| 7 | full, true and correct statement of the proceedings held |
| 8 | at the time and place heretofore stated. |
| 9 | |
| 10 | DATED: October 14, 2023 |
| 11 | FRESNO, CALIFORNIA |
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| 13 | 1 Musa RAD |
| 14 15 | China Cost |
| 16 | MYRA A. PISH, RPR CSR |
| 17 | Certificate No. 11613 |
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