

# 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:

MYRA A. PISH, RPR, C.S.R. Certificate No. 11613

TRANSCRIPT OF PROCEEDINGS September 15, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING APPEARANCES: 1 2 FOR THE USDA ORDER FORMULATION AND ENFORCEMENT DIVISION, USDA-AMS DAIRY PROGRAM: 3 Erin Taylor 4 Todd Wilson Brian Hill 5 FOR THE AMERICAN FARM BUREAU FEDERATION: б Danny Munch 7 FOR THE INTERNATIONAL DAIRY FOODS ASSOCIATION: 8 Steve Rosenbaum 9 FOR THE MILK INNOVATION GROUP: 10 Ashley Vulin 11 Charles "Chip" English 12 FOR THE NATIONAL MILK PRODUCERS FEDERATION: 13 Nicole Hancock Brad Prowant 14 FOR SELECT MILK PRODUCERS, INC.: 15 Ryan Miltner 16 FOR DAIRY FARMERS OF AMERICA: 17 Lucy S. Clippinger 18 19 ---000---20 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.) 24 25 ---000---26 27 28 TALTY COURT REPORTERS, INC. 3994

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TRANSCRIPT OF PROCEEDINGS September 15, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 FRIDAY, SEPTEMBER 15, 2023 - - MORNING SESSION 2 THE COURT: Back on the record. We talked about a lineup at the end of yesterday. Are we ready to go? 3 4 MS. TAYLOR: Yes, your Honor. I think we do have two dairy farmers we would like to being with. 5 THE COURT: Good morning. 6 7 Please raise your right hand. FRANK DOLL, 8 9 Being first duly sworn, was examined and testified as follows: 10 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 Mr. Doll, would you mind stating and spelling your Ο. 17 name for the record? 18 My name is Frank Doll, F-R-A-N-K, D-O-L-L. Α. 19 And could you provide your business address? 0. 20 My address is 113 Metcalf Road, Pocahontas, Α. 21 Illinois, 62275. 22 Ο. Did you provide testimony that you are prepared to 23 give today that's been identified as Exhibit NMPF-85? 24 Α. 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.

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING (Thereafter, Exhibit Number 200 was marked 1 2 for identification.) MS. HANCOCK: You get the lucky number 200. 3 That's monumental. 4 THE WITNESS: For that, I thank you all. 5 BY MS. HANCOCK: 6 7 0. Mr. Doll, if you wouldn't providing us your testimony. And then we have been just reminding each 8 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 All right. Α. Thank you. 13 Ο. Thank you. 14 Good morning, everybody. My name is Frank Doll. Α. 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. 26 And we also -- at Doll Dairy, Inc., we sell about 27 200 Angus/Holstein cross-calves. We have entered into the

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beef business a little bit to control population of the

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.

15 My father operated it back in the 1960s with 100 16 cows, maintained that for a couple decades. In the last 17 decade, we have doubled to our present size of 225 milking 18 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



am on the executive committee there. I serve on the 1 2 St. Louis District Dairy Council Board, where I'm president, along with the Midwest Dairy Board. I'm a 3 member of the Illinois Milk Promotion Board where I serve 4 as president. I'm on the Bond County Farm Bureau Board, 5 which I'm the vice president. And the Gateway Holstein 6 7 Club. And I also am the president of our local cemetery board, which is three people, one of them my dad, so those 8 9 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.

19 Prairie Farms has plants in the Southeast markets 20 in Indiana, Kentucky, Louisiana, and Mississippi. With 21 the continued reduction in milk production in the 22 Southeast part of the U.S., I began shipping my milk to 23 the Southeastern market on a year-round basis, since 2017, 24 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



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 8 9 in many areas the past few years, especially in the 10 last -- in the last couple decades. I have summarized 11 many of these items that my farm supply company sells me 12 as utilization in my milking parlor -- Deal Them Out is 13 who they are. And the cost associated running and 14 maintaining my parlor as, according to Table 1 below, our 15 costs have gone up annually about 7.7% for the various 16 supplies and labor -- these are examples of various 17 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.

21 One of the big ones, it's a very small cost, but 22 milking gloves -- I have a lot of girls that work for me, 23 and they want to wear gloves -- and those things have went 24 up from \$10 a box to \$19, and that's just another cost. 25 Those have went up 90% and change, and that's -- thanks to 26 the pandemic, gloves were in short supply for everything, 27 so --

28

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



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.

20 On our dairy farms, we continue to see costs 21 increase in many areas. The cost of shipping my milk to 22 market to increase as my hauler continues to remain 23 competitive to hire drivers, along with the cost of buying 24 and maintaining equipment. In the last six years, I have 25 seen the cost to ship milk to market increase 26 dramatically. Our cost to ship milk has increased 27 approximately 32.8% in the last six years.

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The price surface has not been updated in over



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1 20 years, so it's time to make changes so we can help 2 offset the additional costs we are experiencing on the 3 farm other than the Southeast. But that was 15 years ago. 4 There have -- there have been many changes in the 5 Southeast and transportation credits for a farm like 6 myself that supplies the market year-round. We do not 7 qualify this credit to help offset the freight costs.

8 As board president of Prairie Farms, I know our cooperative ships milk down to the St. Louis market from 9 10 northern markets, since my milk is going to the Southeast 11 all the time. Much of that milk is traveling farther than my milk -- than my milk does, and receives less in an 12 13 incentive from the price surface. My milk from Central 14 Illinois to Somerset, Kentucky, is almost a hundred miles 15 less than milk from the northern markets down to the 16 St. Louis market, and my milk receives 65% higher value. 17 This is one example of why the entire price surface needs 18 to be reviewed.

19 I would like to express my appreciation to the 20 Secretary of Agriculture and the Dairy Division for 21 holding this hearing. I strongly recommend the Secretary 22 to adopt National Milk's Proposal 19, return to the 23 higher-of for calculation of the Class I skim mover. Т 24 further recommend that the Secretary adopt all National 25 Milk's proposals for the FMMO modernization. This will 26 promote orderly marketing of milk and ensure a more stable 27 price for dairy producers to manage their businesses today and into the future. Thank you. 28



September 15, 2023

1	Q. Thank you, Mr. Doll.
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
25	are supporting today are ultimately agreements that came
26	out of that conference?
27	A. Yes.
28	Q. And you were a member of our dairy working group
÷.,	

1 two years ago, correct? 2 Α. Correct. And would you say that the work that you all put 3 Ο. 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 Α. 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? 20 Α. Yes. 21 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 BY MS. TAYLOR: 28



1 Q. Good morning. 2 Α. Good morning. Thank you for coming down this morning to testify 3 Q. 4 today. Α. You're welcome. 5 Just a few questions for you. I'd like to make 6 0. 7 sure the record's really clear on some of the statements 8 that you put in there. 9 But first, you describe your very diversified 10 operation. And would your farm meet the business -excuse me -- meet the definition of a small business, 11 12 which for dairy farmers -- or for farmers is \$3.75 million 13 in gross revenue annually on a whole farm basis? 14 I'm under that, yes. Α. Yes. 15 And you talked about you ship continuously into Ο. 16 the Southeast market; is that right? 17 Α. Correct. 18 About how far does your milk go? 0. 19 It's about 100 miles, I believe, to --Α. 20 To your plant? 0. 21 Yeah, first plant. The second one is probably, Α. 22 I'm going to ballpark, say 150, something like that, 175 23 maybe. 24 Ο. Okay. Thank you. 25 And on the second page you talked about the price 26 surface hadn't been updated in 20 years, but the Southeast 27 was in 15 years ago. And I just want to make sure the 28 record's clear. That's when we increased the



1 differentials in just the three Southeastern markets; is 2 that correct, in 2008? 3 I think so, yes. Α. And then as you describe in that same 4 0. Yeah. paragraph, there are transportation credits to bring 5 6 supplemental milk down in the Southeast, but your farm 7 doesn't qualify for those; is that correct? 8 Α. Yes. 9 So you have to cover the all of the haul to supply 0. 10 that more fluid market; is that right? 11 Α. Yes. 12 Ο. And then at the -- in your last page, your last 13 sentence, you said adopting Proposal 19, and then this 14 proposal in the -- excuse me -- the Class I skim -- the 15 Class I higher-of proposal and your discussion of the 16 Class I differential proposals will promote orderly 17 marketing of milk. 18 And I just wonder, as a farmer, if you could 19 expand on what you believe is considered orderly 20 marketing. You know, there's no definition for orderly There's no definition of disorderly marketing 21 marketing. 22 really. So from your perspective, what would you see as 23 orderly? 24 Α. Well, I -- I just think the -- a more fair price 25 for the milk. The last several years of the milk price 26 swings that are so -- the lows stay so low so long, and 27 the highs don't stay very high very long, so we're 28 struggling to keep people in the market.



1 I think it's just, as the population shifts, as 2 the milk production shifts, I think the whole Federal Order needs to be adjusted to realize that more people 3 4 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 5 center of the country. And I think we just need to adjust 6 7 all the transportation to move it around, and there's just 8 things are constant change. And I -- and to keep dairy 9 farmers in business I think is the ultimate goal, is just 10 to pay farmers to keep them in business, whether they milk 20 cows or 2,000 cows or whatever. 11 12 0. Okay. Thank you. 13 There are some proposals in front of the 14 Department from National Milk that would delay 15 implementation of certain pieces. And the reason they 16 explain for doing that is that farmers use a lot of risk 17 management these days, and any sudden change in the 18 formulas will impact their risk management positions that 19 they have taken. 20 So do you use any risk management tools? 21 Α. I do use DMC. 22 0. DMC? Okav. 23 MS. TAYLOR: I think that's it from AMS. Thank 24 you thank you so much. 25 THE WITNESS: Thank you. 26 THE COURT: Anyone else? Redirect? 27 MS. HANCOCK: Your Honor, we have nothing further. At this time, we'd move to admit Exhibit 200. 28



1 THE COURT: Any objection? 2 Exhibit 200 is admitted into the record of this 3 proceeding. (Thereafter, Exhibit Number 200 was received 4 into evidence.) 5 6 THE COURT: Thank you, Mr. Doll. We appreciate 7 you coming out. MS. HANCOCK: We have one more producer, Bryan 8 Henrichs. 9 10 BRYAN HENRICHS, Being first duly sworn, was examined and 11 testified as follows: 12 13 THE COURT: Your witness. 14 DIRECT EXAMINATION 15 BY MS. HANCOCK: 16 Good morning, Mr. Henrichs. Would you mind Ο. 17 stating and spelling your name for the record? 18 My name is Bryan Henrichs, B-R-Y-A-N, Α. 19 H-E-N-R-I-C-H-S. 20 And what is your business address? Ο. 21 Α. My address is 19207 Ellwood Road, Breese, 22 Illinois. 23 And your zip code? Ο. 24 62230. Α. 25 Thank you. Did you prepare Exhibit NMPF-79 in 0. 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 so marked for identification. 3 (Thereafter, Exhibit Number 201 was marked 4 for identification.) 5

MS. HANCOCK: Thank you.

7 BY MS. HANCOCK:

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Mr. Henrichs, would you provide your testimony, Ο. please?

10 Okay. My testimony, Henrichs Farms, Ltd., Α. 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.

13 I serve on the Board of Directors of Prairie Farms 14 Dairy, and I am the chair of the strategic planning 15 I also serve on the St. Louis Dairy Council committee. 16 Board and Midwest Dairy, along with the American Farm 17 Bureau Dairy working group, through these -- and through 18 this, my involvement with these organizations, I interact 19 with many dairy farmers. A common topic of discussion is 20 milk pricing and a desire to return to the higher of 21 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



Order.

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2 Some dairy producers have the ability to depool their milk, which has created disparity amongst dairy 3 4 producers and disorderly marketing. Our milk from our dairy farm ships to Prairie Farms plants around the 5 St. Louis market, which are all Order 32 plants. All of 6 7 these are Class I plants that don't allow us to depool my 8 milk. One of the reasons before for setting the Class I 9 price on the higher-of was to ensure the Class I was the 10 highest and incentivize producers to ensure Class I market 11 had a secure supply. With the producers that supply not 12 able to depool their milk was the incentive and maintain 13 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.

20 I have heard from some in the industry that 21 negative producer price differentials that took over 22 \$750 million from the dairy producers' checks, according 23 to National Milk Producer Federation analysts, were caused 24 by the USDA Food Box Program. I would disagree, as the 25 negative PPDs began not too long after the industry moved 26 to the average-of in May of 2019. As you can see in the 27 table below, negative PPDs from Order 32 began in 28 September of 2019, not long after the average-of started.



1 The negative PPDs have taken money from the 2 producers' checks, and while we are appreciative for the PMVAP payments from the USDA in 2022 for the partial 3 4 compensation of the \$750 million lost by dairy producers during the USDA Food Box Program, I'm appreciative for the 5 PMVAP payments, but I know some dairy producers that 6 7 needed the money at the time, not 12 to 18 months later. 8 I know of some that are no longer in business as they --9 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.

16 We have used risk management tools in the past, 17 such as forward contracting and DRP, to help manage the 18 price volatility of dairy markets. With the average-of 19 and the higher-of negative PPDs, which act as negative 20 basis, we are -- and if you are familiar with corn, the 21 corn market, which indicates -- sorry -- we are familiar 22 with the negative basis with corn as that indicates what 23 the market value the commodity at the time. At least with 24 corn, I can call the elevator and find out what the basis 25 is and decide if I want to ship to market. We produce milk that is a perishable product, and with a negative 26 27 PPD, we do not know until two weeks after we are done 28 shipping for the entire month whether or not this is a



1 | negative basis.

2 I was shown a check from a neighbor that forward contracted in July of 2020 when prices dropped 3 4 dramatically. He shared with me his check as he locked in -- he was locked in at \$18 in a Class III futures 5 contract. He lost on the futures contract as he would 6 7 expect when the market rises, but due to the negative 8 basis, or negative PPD, he ended up with a final net check 9 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.

14 I would like to express my appreciation to the 15 Secretary of Agriculture and the Dairy Division for 16 holding this hearing. I strongly recommend the Secretary 17 to adopt National Milk Producers Federation's Proposal 13, 18 return to the higher-of for calculation of the skim I --19 or Class I skim mover. I further strongly recommend the 20 Secretary adopt all National Milk Producer Federation's 21 proposals for the FMMO modernization. This will promote 22 orderly marketing of milk and ensure more stable price for 23 dairy producers to better manage their business. Thank 24 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 Α. 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 0. 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 20 and considered those issues a disorderly marketing 21 condition? 2.2 Α. Yes. 23 As part of the group, you recommended AFBF to hold 0. 24 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 Ο. 28 issues?



1	A. I believe that the Kansas City meeting, yes, there
2	was quite a few quite a bit of consensus across the
3	room of going back to the higher-of and different options
4	like that.
5	Q. Do you recall any opposition to switching back to
б	the higher-of?
7	A. No.
8	Q. Do you recall any opposition to increasing Class I
9	differentials?
10	A. No.
11	Q. Do you recall any opposition to a mandatory survey
12	of handler plant costs and yields?
13	A. No.
14	Q. As part of the dairy working group, you were part
15	of the unanimous approval of AFBF's Federal Order
16	Proposals that include many of NMPF's proposals, as well
17	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:
23	Q. Good morning. Steve Rosenbaum for the
24	International Dairy Foods Association.
25	A. Good morning.
26	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? 1 2 Α. Yes. I mean, and you -- you ascribe that or at least 3 Ο. 4 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 5 6 opposed to the higher-of, right? 7 Α. Yes. And have you actually, you know, done sort of like 8 0. 9 a month-to-month analysis during this time period to see 10 what the Class I mover would have been under the higher-of 11 approach as opposed to what it was based upon the average 12 plus \$0.74? 13 Are you asking for since that time up to the Α. 14 current dates? 15 Well, during this particular time period, which is Ο. 16 2019. 17 Α. Yes. We are always watching it. 18 I mean, just as an example, just to make sure 0. 19 we're looking at it the same way, you know, in May 2019, 20 based upon the information I have before me, the Class III 21 price was -- well, the higher-of Class III or Class IV 22 in -- well, let me start with a new month. 23 In May 2019, the higher of Class III or Class IV 24 was \$7.14, the simple average was \$7.08, so the higher-of, 25 the mover would have been \$7.14, but because it was the 26 simple average plus \$0.74, it actually was \$7.08 plus 27 \$0.74, which would be \$7.82, you know, higher. 28 Did you -- so -- if you just -- I think that's the



1 right way to do the math. Is that -- do you agree with 2 that? 3 Α. Yes. I mean, I just -- and have you done that? 4 0. 5 Α. Yes, we have. 6 0. No one questions, obviously, that come 2020 and 7 the -- and the pandemic, Class III and IV started 8 diverging substantially, and you ended up with less. No 9 one is questioning that. 10 But the -- but the -- do you agree with me that 11 until that happened, you weren't experiencing this kind of 12 anomalous result, were you? 13 Not at that point, but once -- when you start Α. 14 receiving the negative PPDs, they got extremely large, as 15 you can see, that didn't cover the -- you know, it was way 16 more of a negative that year than what the positives were 17 prior to that. 18 Okay. But I mean -- well, okay. So take -- take 0. 19 October 2019, if -- assuming my math is right, I think the 20 higher-of was \$9.26 and the average was \$8.55, so when you 21 added \$0.74 to the \$8.55, you were still higher, not much, 22 but a little higher than the -- than the higher-of. 23 Does that seem right to you? 24 Α. Possibly. 25 MR. ROSENBAUM: Okay. Okay. That's all I have. 26 Thanks. 27 CROSS-EXAMINATION 28 BY MR. MILTNER:



1Q. Good morning, Mr. Henrichs. My name is Ryan2Miltner. 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.

8 So from your statement, I'm gathering that 9 depooling might be one of the most important issues to you 10 as far as your milk check.

A. Yes.

11

16

17

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.

18 So we haven't heard Farm Bureau's testimony, but 0. 19 when they -- when they submitted it to USDA, they said 20 that advanced pricing creates an opportunity to depool 21 milk from the order to benefit from the non-pooled value 22 of the recently elevated prices, without sharing that 23 value with the pool, and further depresses the PPD. And 24 they suggest that advanced price -- getting rid of 25 advanced pricing would reduce the likelihood of depooling.

26Is that something that you would support the27adoption of a proposal like that?

28



Α.

Yes.

September 15, 2023

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



1 Α. So I have not done forward contracting. That was 2 a neighbor --3 Q. Okay. -- who had done it through his co-op. 4 Α. Do you -- do you use any risk management? 5 0. I used DRP in the past, and DMC. 6 Α. 7 0. Okay. And when you did use DRP, how far out did you look to lock in the position? 8 9 Α. Usually one year. 10 One year? And so it's this negative basis you are 0. 11 talking about that seems to be a primary concern of why 12 you might not use risk management tools, currently? 13 Yes. When I have had other -- being a custom Α. 14 operator and helping put silage up for a lot of dairy 15 farmers, a lot of questions on dairy pricing get sent to 16 And we have had producers that bought, especially in me. 17 2020, DRP contracts, and in the months of April, May, and 18 June of 2020, they were set to receive a pretty large sum. 19 And because -- but because of depooling, we had, I 20 believe, around at \$20 to \$21 Class III price in June of 21 2020, but the farmers in our area, because of depooling, 22 were unable to receive that in their milk checks, but they 23 were also not able to receive the DRP payments that were 24 set to come to them. They were kicked out because the 25 price on the futures was higher than what their contract 26 that they purchased. If they bought \$18 for an average, 27 well, that \$20 kicked them into -- above that average, or 28 close to it, that they didn't get a payment.



Q. Okay.

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.

7

1

Q. Because that Class III milk wasn't pooled, so --

Yes, it was -- I believe in Order 32 only 6%, 8 Α. 9 around 6% of Class III milk was pooled in Order 32 that 10 month, so our price was, I believe, around \$12 or \$13 for 11 a hundredweight for our dairy farms. But like I said, they -- their contract, I don't know exactly what numbers 12 13 that -- their particular dairy producer hedged in their 14 DRP, but they were set to receive a large payment, but 15 they did not because of that \$20 on the Board of Trade 16 price.

17

Q. Okay. Thank you.

18 My last question was similar to what I asked 19 Mr. Doll, because your statement also talks about changes 20 that would promote the orderly marketing of milk.

21 So from your perspective as a dairy farmer and a 22 member of Prairie Farms, what do you see as -- define as 23 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? Α. 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. 0. So you -- you would -- if I can extrapolate from You see class prices being in what's called typical that. historical alignment as orderly? Α. Yes. Because then their incentive is there to service 0. the Class I plants? Service the Class I first, and then from there --Α. 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 wasfarmers, neighboring farmers, receiving significantly



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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 different prices for milk when they are both participating 2 in the Federal Order would be disorderly as well. 3 Α. Yes. MS. TAYLOR: Okay. I think that's it. Thank you 4 so much. 5 6 THE WITNESS: Thanks. 7 THE COURT: Anyone else? Okay. Redirect. 8 9 MS. HANCOCK: Thank you, Mr. Henrichs. 10 Your Honor, at this time we would move to admit Exhibit 201. 11 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:



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

	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	THE COURT: Thank you, sir.
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



1 shelf-life, and aseptic dairy products. We employ 2 approximately 7900 employees in the United States. We are 3 among the top three cheese manufacturers, and one of the 4 largest producers of extended shelf-life fluid products.

5 22 of the 29 plants in the United States process 6 milk and receive milk pooled in seven different Federal 7 Milk Marketing Orders. Most of the milk we buy is 8 regulated by the Federal Order system and extends, at 9 least to some degree, to all classes of milk. Therefore, 10 Saputo has a strong interest in the decision by USDA as a 11 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.

18 I'm currently serving as secretary of the 19 International Dairy Foods Association's executive council. 20 I also serve on two segment boards within IDFA, which are 21 the cheese and ingredients segment boards. Additionally, 22 I sit on the executive board of American Dairy Products 23 Institute, or ADPI. Saputo is also a member and supporter 24 of several other key industry associations. We actively 25 participate as a member of the Wisconsin Cheese Makers 26 Association, the Dairy Institute of California, the Cheese 27 Importers Association, and the United States Dairy Export 28 Council, to name a few.


I have been part of the dairy industry since 1 2 August of 1997, working at Saputo USA for that entire 26-year period, minus a few months. I have held various 3 roles within Saputo USA with the -- with the longest in 4 duration being president and chief operating officer for 5 our U.S. cheese division for 14 years. My educational 6 7 background includes a Bachelor of science degree from the 8 University of Wisconsin LaCrosse in political science and 9 graduate course work at the University of Wisconsin Green 10 Bay.

11

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.

16 Proposal Number 3, submitted by National Milk 17 Producers Federation to remove 500-pound cheddar barrel 18 pricing from NDPSR price used to calculate Class III 19 protein should be rejected. Cheddar barrels make up 20 approximately 50% of the cheese surveyed each week. This 21 proposal would create even more price disparity between 22 cheddar barrel CME market price and Class III pricing. 23 They would be completely disconnected. In my opinion, 24 this would create even greater margin volatility for 25 500-pound cheddar barrel manufacturers. This proposal has 26 been rejected in the past by USDA, and it should be 27 rejected again for the same reasons.

28

Proposal 6, submitted by the California Dairy



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Campaign to include mozzarella cheese in the product price 1 2 surveys should be rejected. Without more clear and concise information on how this would be accomplished, we 3 4 cannot support this proposal. As the second largest mozzarella manufacturer in the United States, Saputo USA's 5 mozzarella facilities are all unique. The processes and 6 7 equipment utilized are designed to make finished products 8 that meet customer and consumer expectation. Recipes are 9 designed to achieve finished good analytical data for fat, 10 solids nonfat, moistures and salt, to meet customer needs 11 and expectations.

12 Our low-moisture part-skim mozzarella string 13 cheese plants are very different and have much higher cost 14 structures than our low-moisture part-skim mozzarella loaf 15 plants that service our foodservice and industrial 16 customers. The multitude of mozzarella recipes, finished 17 product analytical data, packaging formats, and production 18 processes, all vary greatly based upon the customer and 19 consumer expectations. For these reasons, mozzarella 20 should not be included in product price surveys used to 21 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



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900 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.

9 Updating the current manufacturing allowances are 10 a must. Manufacturing allowances in Class III and 11 Class IV milk pricing formulas don't reflect current 12 processing costs for cheddar, whey, nonfat dry milk, and 13 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:

24 On overhead: Energy and electricity and repair 25 and maintenance cost;

26 Direct raw materials: Resin-based materials and 27 corrugated packaging;

28

And for direct labor: Manufacturing hourly rates.



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.

7 Overhead impact. Over the period from January 8 twenty -- or January 2006 through July 2023, energy costs in particular have increased. The Producer Price Index 9 10 and industrial electric power and industrial machinery and 11 equipment repair and maintenance used for support are 12 compiled by the US Bureau of Labor Statistics. The annual 13 average price index for electrical power has risen 74%, and repair and maintenance has risen 53% since 2006. 14

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.

21

15

16

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



1 efficiency.

2 Additionally, we invested in hundreds of millions of dollars to improve our processing equipment, installed 3 4 packaging automation systems at the end of our production lines, deployed new technology to reduce energy 5 consumption, and implemented waste reduction initiatives 6 7 to reduce wastewater cost. This was done throughout our 8 operation -- operational network in the United States, and 9 yet, we have been unable to offset the increases in 10 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



1 minimum regulated prices that do not reflect current 2 industry costs. The existing use of fixed out-of-date 3 Make Allowances is a major problem for all dairy product 4 manufacturers producing cheese, butter, whey, and nonfat 5 dry milk."

Thank you for allowing me to testify on behalf ofSaputo 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.

17 Can you comment on what, in fact, has been the18 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 theonly place to go with it is generally through a dryer or



1 to sell it to someone else that has a dryer, or 2 concentrate it and sell it as animal feed. If you don't have those outlets ahead of time, you have to dry it, 3 4 there's no choice, and you have to inventory it and sell it for the market price. 5 6 Ο. You get what you can even though it doesn't 7 actually end up being a profitable undertaking; is that 8 right? 9 Fair. Yes. If you want to make cheese, you have Α. 10 to process whey. Now, there also has been some testimony about how 11 0. 12 much of the cheese industry as a whole is priced off of 13 40-pound blocks versus 500-pound barrels, and perhaps some 14 suggestion that -- there may be two or three identified 15 exceptions -- if the product is not being sold off of the 16 500-pound barrel market, then sort of by default it is 17 priced off of the 40-pound block market. 18 Could you comment on your views as to that 19 question? 20 Well, I think that, as they mentioned, people were Α. 21 throwing around percentages of what is sold on block and 22 what is sold on barrel. I think what they are -- a big 23 segment that they are forgetting is the branded retail 24 side of the business. So branded retail cheese is sold on a case price to the retailer. It is not sold on a block 25 market. It's not sold on the barrel market. It's a fixed 26 27 price. And, for example, our branded string cheese, we 28 sell it on a case price to the retailer and work our



1 promotional or trade spending off that price. It has 2 nothing to do with the block market. You focus much more on the Class III for the input cost. 3 What about for export? 4 0. Exports, Asia, and what I would say, the Middle 5 Α. East, North Africa, South America, are on tenders. What I 6 7 call a tender is people go out for a quarter in advance 8 and ask for pricing, and you have to compete on the global market for that pricing if you want to sell into those 9 10 markets during that quarter. So it's a global market, and 11 it's not based on any block market indices or barrel. 12 MR. ROSENBAUM: The witness is available for 13 cross-examination. 14 CROSS-EXAMINATION 15 BY MR. MILTNER: 16 Good morning, Mr. Brockman. 0. 17 Α. Good morning. 18 For the record, I'm Ryan Miltner, and I represent 0. Select Milk Producers. 19 20 I wanted to talk with you about your whey 21 operations. You have a lot of cheese plants, correct? 22 Α. Yes. 23 You made reference specifically only to one whey 0. 24 plant in Las Cruces, correct? 25 Α. Correct. 26 Is that the former F&A cheese plant? Q. 27 Α. Yes, it is. 28 Okay. What type of whey products are produced at Q.

1 that plant? 2 Α. Just sweet dry whey. It is just dry whey. There are no other WPCs or 3 Ο. 4 WPIs produced there? That's correct. 5 Α. 6 0. At your other cheese plants, do you produce dry 7 whey? We have capabilities to produce dry whey 8 Α. Yes. 9 even though they are not the primary products. 10 At those plants, do you produce more of the WPCs Ο. 11 and WPTs? 12 Α. Yes. We produce the WPC34 and WPC80s, as well as 13 drying permeate. 14 At the plant in Las Cruces, what types of these 0. 15 cheeses are produced there? 16 Α. Pasta filata or mozzarella and provolone. 17 0. I think you made reference in your statement that you didn't make any commodity cheddar, and in fact, that 18 19 at Las Cruces you make no cheddar at all, correct? 20 That's correct. Α. 21 For the dry whey that you produce at Las Cruces, 0. 22 is that -- are the sales reported to the NDPSR? 23 Yes, they are. Α. 24 Does Saputo report any other dry whey sales to the Ο. 25 NDPSR from other plants? 26 Α. When we make them in Waupun, we report them as 27 well. 28 Did the dry whey manufacturing costs for any Q. TALTY COURT REPORTERS, INC.

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1	plants other than Las Cruces get reported to			
2	Dr. Stephenson?			
3	A. No.			
4	Q. I can't remember exactly when, but when did Saputo			
5	acquire the F&A plant?			
б	A. I want to say it was late 2017, December of 2017.			
7	Q. That sounds reasonable to me. And you would know			
8	better than I, I think.			
9	You I'm curious, if if in preparing National			
10	Milk's proposal or preparing for your testimony, did			
11	Saputo look at the dry whey costs at Las Cruces, the			
12	processing costs from like when you acquired it say early			
13	2018 to now?			
14	A. I I have not looked at that specifically.			
15	Q. Did Saputo look specifically at its costs to			
16	produce dry whey at any facility in preparing for your			
17	testimony today?			
18	A. We submitted the survey document whenever that			
19	was. That was to the extent on the dry whey that we			
20	looked at.			
21	Q. Okay. In addition to that, did you did Saputo			
22	look at any of its historical costs to be able to say,			
23	boy, our cost to produce dry whey in 2008 was X, and in			
24	2022 or 2023, it is 3X, or whatever that is?			
25	A. Not the comparison, but I know what the cost is to			
26	dry whey at our plants.			
27	Q. Okay.			
28	A. So			

1 Q. Are you willing to share that? 2 Α. No. I had to ask. Okay. 3 Ο. 4 In your statement you talk about some Okay. investments that Saputo has made into its various 5 facilities. 6 7 Now, you are aware that depreciation costs are 8 included in Dr. Stephenson's study, correct? I believe so. Yes. 9 Α. 10 And so whatever those costs that Saputo has, if 0. 11 they were reported to Dr. Stephenson, they would be 12 included in his manufacturing costs, correct? 13 Α. Yes. 14 Those projects, those capital projects you Ο. 15 described, you described them as investments to improve 16 your efficiencies, right? 17 Α. Yes. 18 Now, were you part of the decision-making process Ο. 19 on those improvements? 20 Α. Yes. 21 Would you characterize those as upgrades to 0. 22 facilities or replacements of equipment that had reached 23 the end of their useful life? 24 I think they were in many cases both. Α. 25 Okay. So you did have the ability to make the Ο. 26 necessary capital improvements to your plants to keep them 27 functional and operational? 28 Α. 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?

8 They offset cost increases that we needed to be Α. 9 competitive, yes. I mean, it is -- when -- when -- when 10 we talk about reasons to invest, a kilowatt rate is a 11 kilowatt rate. And if that kilowatt rate goes up by 50%, 12 and you reduce the number of kilowatts you use because you 13 spend capital, part of that capital return is the -- you 14 know, the return is to pay for the capital you outlaid 15 upfront and the interest you had on it. So that -- but --16 so it's -- it doesn't change the fact that the kilowatt 17 rates are more expensive for energy.

18

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I agree with that entirely.

19But the investments were made because they were20either going to increase the income to Saputo or reduce21its operating costs, correct?

A. Yes. Yes. For the ones that weren't justequipment replacements.

Q. Okay. But those were necessary just to keep theoperation 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,



1 "This was done throughout our operational network in the 2 United States, and we have yet been" -- "we have" --3 sorry -- "and yet we have been unable to offset the 4 increases in manufacturing costs."

5 Now, explain for me what you mean by that 6 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.

12 Q. So if I may take that a step further, even despite 13 these improvements, your overall costs have increased, 14 correct?

A. Yes.

15

16 Q. But Saputo has realized the economic benefit it 17 expected to when it did its IRR or payback or return on 18 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. 1 Α. 2 Ο. 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. 6 Just because I don't want to give out that 7 information publically. 8 And I know that other manufacturers have said not Ο. to the dollar amount, but, you know, our packaging costs 9 10 are up 54% or whatever. 11 But you chose not to provide that information, 12 correct? 13 Because it's a public company, we don't share that Α. 14 with our current -- we don't provide that information 15 publicly. 16 Ο. Okay. 17 Α. So to do it in this setting would be not 18 appropriate. 19 So the current Make Allowance for dry whey is Ο. 20 \$0.1991. 21 Α. Yes. 22 Ο. And is that Make Allowance high enough to cover 23 Saputo's current make costs on whey? 24 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. 28 Would that be a level high enough to cover

	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING		
1	Saputo's cost to dry whey?		
2	A. Now, it would be no.		
3	Q. I didn't hear the first part of your answer.		
4	A. No. Right now, no.		
5	Q. Okay. In year four of IDFA's proposal it is		
6	\$0.3157. Would that be high enough to cover Saputo's cost		
7	to dry whey?		
8	A. Today?		
9	Q. Yes.		
10	A. Yes. I don't know what the future will look like.		
11	Q. None of us do.		
12	You it's pretty clear your position on barrels		
13	and their inclusion in the survey. Obviously, it's also		
14	clear Saputo produces no barrels, correct?		
15	A. That's correct.		
16	Q. And Mr. Rosenbaum asked you some questions about		
17	that, and if I can summarize what I understood from your		
18	answers, you explained that the retail market, the		
19	wholesale retail market where you sell the stuff that we		
20	buy at Kroger every week, that's divorced from block and		
21	barrel prices, correct?		
22	A. The branded business is.		
23	Q. Okay. And I think you also said that the export		
24	market is divorced from block and barrel pricing or at		
25	least barrel pricing. Was that correct? Did I understand		
26	correctly?		
27	A. The markets that I mentioned, Asia, South America,		
28	Middle East, North Africa, yes.		



Q. And are those Saputo's primary --Α. Those are the ones that we sell into that I can speak to. Okay. And right now -- and it changes over time, Ο. but barrels tend to decrease the Class III price, at least they have recently, correct? Α. 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. And you -- and I think you said that because of Ο. 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? 14 It is always the most relevant because that's your Α. cost. So is the reason that you want to keep the barrels Ο. in, so that the Class III price is lower? Well, it actually -- sometimes the barrel price Α. 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 20

22 had an inverse relationship, which happens during certain 23 months and certain quarters, and it can go the other way. 24 Like you are saying, over the last five years, the gap has 25 widened, that barrel prices are lower.

the block and the barrel market's higher, I have actually

26 I -- right now, in regards to pricing on the 27 Class III, we sell most of our product, other than what I 28 mentioned in exports and at the retail trade, mostly on



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1 | the block market on an overage.

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
9 items are not sold on the blocks, and where we sell into
10 Korea, South America, Middle East, and North America are
11 not sold on the blocks. All the rest of our business
12 domestically in the United States on mozzarella, and a lot
13 of other products, are sold on an over-the-block basis.
14 Could be under-the-block basis as well.

15 Q. Okay. So they are all priced off blocks, not16 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%.

20 Q. Okay. But none of your products are sold off the 21 barrel, right?

22 A. That's correct.

23 Q. Okay.

A. But we do buy off the barrel.

25 Q. Okay.

26 A. We buy processed cheese --

27 Q. Okay.

A. -- and resell.



	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
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.

28	Q. Okay. And if I look at the most recent financials	
27	A. Since 1998.	
26	accurate?	
25	of your financials are publicly reported online; is that	
24	Q. And you're a publicly traded company, and so all	
23	A. Yes.	
22	fair?	
21	that you just want to get more, a better price; is that	
20	Q. Okay. And and that's always the case, right,	
19	block for mozzarella.	
18	but no, there's been no issues with pricing off the	
17	A. Besides not getting enough of a price, I guess,	
16	mozzarella off the blocks?	
15	Q. Any issues that you have had pricing your	
14	A. What do you mean seamless?	
13	issues?	
12	process for you to be able to price your mozzarella. Any	
11	blocks, and I'm wondering if that's been a seamless	
10	talking with Mr. Miltner about pricing mozzarella off the	
9	Q. I think you said that you were just last	
8	A. Yes, as I mentioned.	
7	Q. Okay. So did you only respond with one plant?	
6	survey.	
5	for our cost accountants to put together and fill out the	
4	product, one dryer, it was a very simple, easy exercise	
3	easiest, cleanest plant that we had in regards to one	
2	to participate. And we used Las Cruces because it was the	
1	A. No, I was made aware of the survey, and I wanted	

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 for Saputo, it says that Saputo has been returning a 2 profit 4.468 billion in 2023. 3 Does that sound right? Α. I -- I don't have it memorized off the top of my 4 head but --5 6 Ο. In the ballpark? 7 Α. Are you talking EBITA or are you referring to --I'm talking about just Saputo revenues. So we can 8 Ο. talk about EBITA --9 Oh, you are talking about revenues, because you 10 Α. said profit. 11 12 0. Okav. Well, we can talk about EBITA. 13 Your EBITA was 392 million in 2023; is that right? 14 I don't think that's accurate. But are you Α. 15 looking at a quarter? What are you looking at? 16 I'm looking for fourth quarter fiscal 2023. Ο. 17 Α. Are you looking at the U.S. division? Global 18 division? I don't know what you are looking at. 19 Do you know what the 2023 U.S. division EBITA was 0. 20 for 2023? 21 So you are looking at the U.S. division, not the Α. 22 global company? 23 I'm just asking if you know. 0. 24 Α. Not off the top of my head exactly what it was at 25 the end of the year. But if you are looking at the U.S. 26 division and you are saying it is 392 million, and you are 27 referring to it as Canadian dollars? Is that what you are 28 referring to 392 to?



1 Ο. I'm asking what your knowledge is. Do you know 2 what the profits -- do you know what the EBITA was for fiscal year 2023 for the U.S. division in U.S. dollars for 3 4 Saputo? Α. I would say it's in the upper 300s. 5 6 0. And is it fair to say that it represents a 7 sizeable percentage increase in fiscal year 2023 over 8 2022? 9 Α. Yes. 10 Do you know what the percentage is? Ο. 11 Α. Not off the top of my head, no. 12 Ο. More than 40%? 13 I don't know. Could be. Α. Saputo is -- I think it characterizes its 14 0. 15 facilities as world class facilities. 16 Have you heard that used to characterize Saputo's 17 facilities? 18 Α. I would say some are. 19 Which ones? Ο. 20 We have over 60, so which one --Α. 21 Which ones would you consider to be the world 0. 2.2 class --23 Do you want to talk about the U.S. ones or do you Α. 24 want to talk about the global ones? 25 We can talk about U.S. 0. I would say we have probably three world class 26 Α. 27 facilities in the U.S. on the cheese side. 28 Ο. Which ones would those be?

I'd say Tulare Paige, Waupun, and Tulare Levin. 1 Α. 2 Ο. And the one that is under construction now, where is that located? 3 In Southeast Wisconsin. 4 Α. Will that be a world class facility when it opens? 5 0. 6 Α. I hope so. Yes. 7 Ο. That's the plan, right? 8 That's the plan. Α. 9 It is scheduled to open in 2025? Ο. 10 It's scheduled to start later this year. Α. 11 Ο. Okav. It will start processing in --12 Α. Fully complete by that. 13 Okay. So that's good clarification. You will 0. 14 start processing product there this year, but it will be 15 fully complete by October of 2025? 16 Α. Yes. 17 0. And it started at a \$240 million investment. 18 Do you know where it's landing by the time you are 19 fully open and completed in 2025? 20 I don't have any updated calculations on that. Α. 21 Something in excess of the \$240 million? Q. 22 Α. I don't know. It's not my area of responsibility 23 anymore to track the capital projects but --24 0. And then there's also an expansion to the string 25 cheese on the West Coast? 26 Α. Yes. 27 And that's another \$75 million project? 0. 28 Yes. Α.

1 Ο. And those are expected to provide a profitable 2 return no later than the fourth quarter for 2024 for the two projects; is that right? 3 Again, that's the plan. 4 Α. Yeah. So then if we open -- if you are opening the new 5 Ο. facility in the end of the year in 2023, within 12 months 6 7 you are expecting that new plant and the expansion on the 8 string cheese to have profit returned within 12 months? 9 Α. Yes. 10 And then you have made some decisions to close 0. several other facilities that were less efficient and 11 12 outdated? 13 Α. Yes. 14 And I think I counted five. Ο. 15 Does that sound right? 16 That sounds a little high, but it -- I -- I got to Α. 17 go back and count them, I guess. I got to go look at 18 the -- what we call is the strategic plan. But I can --19 one's not really closed, it's being reutilized. So I 20 won't say it is closed. 21 Okay. So four are closing and one is being Ο. 22 repurposed? 23 You are -- yeah. Four. Correct. Α. 24 Okay. And with those closures, you would agree 0. 25 with me that Saputo's efficiencies in its plant processing 26 capabilities are going to be improved? 27 Α. Yes. 28 And have you measured the percentage of cost 0.

1 efficiency improvement that you expect to receive by 2 closing those plants, those four plants, repurposing one plant, and then opening the new plant? 3 4 The analysis has been done. Α. Do you know what the percentage of improvement is 5 0. 6 to the cost structure for processing the products by these 7 strategic changes that Saputo is expecting to receive? 8 Not off the top of my head, no. Α. 9 Greater than 30%? Ο. 10 I don't know. Α. 11 Ο. Okay. Can you ballpark it? 12 Α. 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. 16 If your press release or your public Ο. Okay. 17 statements that you issue to your shareholders said that 18 it was 47%, would you have any reason to disagree with 19 that? 20 I would not. Α. 21 Do you know -- I think that when you were talking Ο. 22 with Mr. Miltner just now, you were able to -- to look at 23 the proposed Make Allowance increases and tell him at what 24 point you believed that it would cover the Make Allowances 25 for Saputo; is that right? 26 Α. Yes. 27 Ο. And I can't -- I didn't -- I don't know if I 28 caught it, but was it year two for IDFA's proposal that



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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING you said it would cover the Make Allowances? 1 2 Α. He basically asked the first year and the last 3 year. Okay. Do you --4 Ο. That's what he used. 5 Α. What year is it that it would cover Saputo's 6 Ο. 7 Make Allowance? I would rather just keep it to the answer that I 8 Α. 9 had instead of trying to narrow it in to what my cost is. 10 So somewhere between two and three; is that fair? Ο. 11 Α. I -- I think I just answered that I would rather 12 not narrow it in. 13 Okay. Can you tell me what year it was that the 0. 14 current Make Allowances that are set became insufficient 15 to cover Saputo's costs? 16 Α. I would say the date it was implemented for some 17 plants. 18 Back in 2008? Ο. 19 Α. Yes. 20 Based on the efficiency levels of those plants? Ο. 21 Α. Yes. 22 And those are some of the plants that we just 0. 23 talked about have since been closed? 24 Α. No, they were closed a long time ago. 25 Okay. And others that have then since been 0. 26 closed. 27 Α. Yes. 28 Okay. And so when you were giving the answer to Q.

Mr. Miltner about somewhere before year four it would 1 2 cover the cost of Saputo's manufacturing for cheese, then, did you account for the fact that these four plants that 3 4 you are closing now, the one plant that's being repurposed and then the new plant that's being constructed, were you 5 accounting for the improvement in efficiencies that are 6 7 forecasted for Saputo or were you just using your current 8 cost structure? 9 You realize the plants that were closing don't Α.

10 process milk, right? 11 Q. Well, I mean, I'm just asking because you said

12 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.

22

Q. And -- and the new --

They can automate --

23 A.

24

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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1	straight	, narrow, efficient processing lines.
2	Q.	And then it also allows to you move into different
3	geograph	ic territories where you can reduce some of your
4	hauling	costs as well?
5	Α.	Yes.
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. R	OSENBAUM:
11	Q.	Steve Rosenbaum, again, just to clarify what you
12	were tal	king 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	manufact	uring plant; is that correct?
16	Α.	It is not.
17	Q.	It doesn't receive any milk, correct?
18	Α.	That's correct.
19	Q.	It's a cut-and-wrap operation?
20	Α.	Yes.
21	Q.	Its costs are not included in anyone's calculation
22	of Make	Allowances, correct?
23	Α.	That's correct.
24		MR. ROSENBAUM: That's all. Thank you.
25		THE COURT: Mr. English.
26		CROSS-EXAMINATION
27	BY MR. E	ENGLISH:
28	Q.	Good morning. My name is Chip English for the

1 Milk Innovation Group. 2 Mr. Brockman, does Saputo receive any Grade B milk? 3 Α. No. 4 If you stopped receiving Grade B milk at any time, 5 Ο. when did you last receive Grade B milk? 6 7 Α. We stopped probably in 2015 or 2016. MR. ENGLISH: Thank you. That's all I have. 8 9 THE COURT: Okay. Are we ready for AMS? 10 Looks like Ms. Taylor. 11 CROSS-EXAMINATION 12 BY MS. TAYLOR: 13 Ο. Good morning. 14 Α. Good morning. 15 Than you for coming to testify today. Ο. 16 Thank you. Α. 17 0. 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 Α. Yes. 22 Ο. Okav. And of the 22 that you do receive milk 23 from, how are those supplied? We purchase milk either through cooperatives or 24 Α. 25 our direct farmer base. 26 And do you know roughly in total percentage Q. 27 breakdown of your co-op versus your independent direct 28 shipper supply?



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1 Α. Yes, I do. 2 Ο. Would you mind sharing? We don't share that publicly at this time but --3 Α. 4 0. Okay. -- it's -- we try to -- to be balanced. 5 Α. And do you pool milk on all of those with the 6 Ο. 7 those 22 plants? 8 I would say most of the time, yes. Α. 9 But you do not pool milk some of the time when 0. 10 that's a good business decision? 11 Α. Yeah, based upon the pooling parameters in the Federal Orders that we reside. 12 13 Okay. And there's been talk recently, I don't 0. 14 know how much of the hearing, I don't know what week we're 15 on now, you listened to perhaps, but throughout the 16 hearing you have heard discussions of how producers have 17 been impacted by inadequate Make Allowances as they have 18 been presented to us and how that's impacting lower pay 19 prices to them through a co-op side, and then maybe that's 20 reblending those losses across the members; from the 21 proprietary side that might be paying less premiums to 22 your shippers, etcetera. 23 So I wondered if you could talk to how Saputo has 24 dealt with or tried to -- how Saputo has dealt with those 25 manufacturing losses as you would term them in their pay 26 prices to producers? 27

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



depooling at times is one way. Premiums have decreased significantly. I would say they are down, you know, in ballpark figures over a dollar in Upper Midwest from where they were ten years ago.

Q. And are you talking there Saputo specifically orjust generally?

7 Α. Talking about that's -- that's the market. What I would say the -- to buy milk, that's the market. So if 8 you want to procure the milk, the market's \$1.50 over 9 10 class, that's what you have to pay. Sometimes it is 11 lower. And I would say right now it is a dollar off where 12 it was just ten years ago on the over-class premiums in 13 the Midwest.

14 Q. So Saputo does pay premiums when it needs to -- to 15 get milk supply?

A. Yes.

16

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?



1	A. So since I'm responsible for the milk procurement,		
2	I have several conversations with farmers weekly, monthly,		
3	that I can say unequivocally the farmers have been worried		
4	more about market access and having availability to		
5	markets over their last five years than they have been		
б	worried about premiums. They want a market for their		
7	product, one they can go back to the bank and say, I have		
8	somebody that's going to take my milk. Not somebody that,		
9	I am making \$0.50 or \$0.60 over class. It's more, will		
10	you take my milk and take it every day? I can't afford to		
11	be cut off. I have a 3,000-cow dairy; I need a market for		
12	the milk.		
13	Q. So but when it comes to my question on how		
14	often you have discussions about premiums?		
15	A. How often? We generally set our premiums on an		
16	annual basis.		
17	Q. Thank you.		
18	Do you have any plants that take milk located in		
19	California?		
20	A. Yes, it's one of our biggest orders.		
21	Q. Okay. So we have a study you know,		
22	Dr. Stephenson's study, which you all did participate		
23	in well, let me ask this question because I don't know		
24	Saputo's footprint. In California, those plants, do they		
25	produce products that were reported to Dr. Stephenson?		
26	A. No.		
27	Q. Okay. Then I won't ask.		
28	And you make cheddar, so but you don't make		



1 barrels; is that right? 2 Α. We make what I would call specialty cheddar, you know, aging product for three years, or that include --3 4 have inclusions and/or kosher, organic, non-GMO, what I'd call specialty cheddar. 5 6 0. Okay. So no reportable cheddar, NDPSR reportable 7 cheddar? Α. If we do make it because we don't have anything 8 9 else to put it in, then we would and report it. 10 I wanted to ask you a couple of questions 0. Okay. 11 on mozzarella, what you do make; is that correct? 12 Α. Yes. 13 Okay. I know you talked about how your costs are 0. 14 different in making cheddar. Would you say they are -- I 15 guess, can you expand on how they might be different -- or 16 excuse me -- on making mozzarella, can you expand on how 17 they might be different and how much more of a cost you 18 would see in making your mozzarella products versus your 19 cheddar that you might happen to put in a block or a 20 barrel and report? 21 I wouldn't say necessarily that it's more. Α. Ι 22 mean, mozzarella is a different type of cheese, generally 23 with a much higher moisture content than cheddar. So, 24 therefore, you know, when you -- it just -- you have less 25 solids than if you are selling it as a 48 or 50% moisture. 26 So it's the cost that's -- not necessarily higher, unless 27 you put it into different formats. 28 Q. Okay. And there has been some discussion when we



NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 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 5 6 be for mozzarella? 7 Α. For kind of like as a clearing type? Sure. Uh-huh. 8 Ο. 9 I would say 20-pound mozzarella loaf. Α. You indicated that you participated in the 2023 10 Ο. 11 Dr. Stephenson study but not the 2019? 12 Α. That's correct. 13 I don't know if you remember, did you all 0. 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. 17 0. Okay. 18 I really don't. And to be -- I don't think we Α. 19 owned a whey plant then. 20 Ο. Okay. 21 In fact, back then, because we acquired our -- the Α. 22 Alto asset, which had a whey dryer, and the Land O'Lakes 23 assets in 2007 and 2008. 24 Ο. 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. 27 Two questions: Does Saputo use any type of 28 hedging to lock in your energy rates?



1 Α. Yes. 2 Ο. And you talk about in that energy section, comparing your costs to 2006 -- or not your cost 3 4 specifically, but just what the indices say. And we did look up some of those references which you provided, and I 5 know the one for -- or it seems to be the one for repair 6 7 and maintenance, that series only goes back to 2009. So I quess I would ask you about that. And so for 8 9 the repairs and maintenance, are you saying that should 10 just be a comparison from 2009? 11 Α. I'll go back and check, but -- it's a follow-up, 12 but I -- I will look. I might have just not put the right 13 data on the testimony. Sorry if that's not right. 14 I have all these wonderful people behind me that 0. check all these things. 15 16 Α. I believe it is right off the St. Louis Fed, and I 17 know our procurement groups look at them --18 Ο. Yes. 19 -- religiously to make sure that procuring Α. 20 correctly. 21 Okay. On your discussion of efficient investments 0. 22 in your plants, and I think I caught you're building a new 23 plant, but that's just cut-and-wrap? 24 Α. Yes. 25 So of the other plants where you did put some 0. 26 investments in to gain efficiencies, would these be also 27 to increase yields to efficiencies, not just reducing 28 costs but increasing output?



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1 Α. Well, the ones that -- that is currently a 2 mozzarella plant that's being repurposed to make goat cheese, and so it's --3 4 Ο. Not a --I can't compare -- goat cheese is completely 5 Α. different than the mozzarella that it was making and the 6 7 equipment is completely different. Have you put any investments in on the whey side 8 0. 9 of the house since that is a reportable product? 10 Mostly in the fractionation side. Α. 11 0. Okay. On page 5, the last sentence of the first 12 paragraph -- well, first, the paragraph talks about dairy 13 manufacturers needing accurate Make Allowances. And you 14 say, "Without this, manufacturers will be sent wrong 15 financial signals impacting investment, capital 16 disbursement and Federal Order pooling decisions." 17 I'm wondering if you can just expand your thinking 18 on that sentence for us. 19 So -- well, as a -- as a -- what I would call a Α. 20 global company, every division is working to get as much 21 capital as they can to reinvest in their division or their 22 area. And ultimately, if we want to continue to reinvest 23 in cheese making, we have to have a positive return. 24 Ultimately, with the Make Allowances being out to date -out of date, making cheese -- making it more challenging 25 26 to make the return that's acceptable, you will redirect 27 funds and capital to other areas of the business, it could 28 be fillers for aerosol, it could be tabletop, it could be



1 a variety of things. But those would get preferential 2 treatment over cheese, maybe inaccurately. So because the demand in the marketplace might be for cheese, but if 3 4 cheese makers can't make profits, then they won't invest in it. 5 And pooling decisions, I think people have talked 6 7 about disorderly marketing quite frequently, but when people are depooling, just because it's their only way 8 9 that they can make cheese and process whey to make money, 10 I think that's disorderly. 11 Ο. So you would rather see it where more milk is 12 pooled? 13 I think that's better for everyone. Α. 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 All right. You are dismissed. Thank THE COURT:


1 you so much for coming in. 2 And we'll take a ten-minute recess. Come back at 9:55. 3 Off the record. 4 (Whereupon, a break was taken.) 5 THE COURT: On the record. 6 7 Please raise your right hand. KIM HEIMAN, 8 9 Being first duly sworn, was examined and testified as follows: 10 THE COURT: Your witness. I think it's still a 11 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 0. Could you please state your full name for the 18 record? 19 My name is Kim Heiman. And it's spelled K-I-M, Α. 20 last name is H-E-I-M-A-N. 21 And what is your mailing address or business Ο. 2.2 address? 23 Our business address is 10898 U.S. Highway 10, and Α. 24 we're in Marshfield, Wisconsin, 54449. 25 And you are here today appearing on behalf of the Ο. Wisconsin Cheese Makers Association; is that correct? 26 27 Α. That is correct. 28 The first witness for that organization to appear. 0.

1	А.	Thank you.
2	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.
б		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 st	tatement a rather detailed discussion of your
14	company	y'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	5?
21	А.	That is correct.
22	Q.	And are you aware that WCMA Proposal 8 and IDFA
23	Proposa	al 9 are identical, in fact?
24	А.	Yes, I am.
25	Q.	Developed jointly in essence, correct?
26	А.	That's correct.
27	Q.	Okay. Could you please read us your testimony?
28	А.	Thank you. I'd love to.



1 My name is Kim Heiman, and I am here today to 2 testify in support of Proposal 8 which seeks to update the 3 current Make Allowances with a phased-in implementation 4 schedule.

I serve as president of Nasonville Dairy, a cheese 5 manufacturer in Central Wisconsin that is now employing a 6 7 third and fourth generation of our family, alongside 130 full-time and part-time employees. Our production site 8 9 west of Marshfield is really two plants in one, with 10 separate lines running American-style cheeses and Feta In all, we produce about 60 million pounds of 11 cheese. 12 cheese in 42 different varieties and styles of cheese, 13 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.

21 Accuracy in Make Allowances is important to the 22 proper functioning of classified milk pricing. We pool 23 milk in Order 30 and follow the requirements for paying 24 our dairy farmers partners -- or dairy farm partners, 25 excuse me -- according to order regulations. Together 26 with my controller, I have gathered information on our 27 costs to produce colored cheddar in 40-pound blocks, which 28 comprises about 27% of our total cheese production.



It is my hope that our real world data is useful 1 2 to USDA as it contemplates updating Make Allowances. Cheese plants like us, and smaller cheesemakers and the 3 4 large operators need up-to-date Make Allowances that reflect production costs that have skyrocketed in recent 5 I can tell you that if our 55-year family 6 vears. 7 operation only made colored cheddar blocks, we would not 8 have survived the last decade. An accurate Make Allowance is the key to keeping a healthy diverse number of cheese 9 10 factories operating around the country, providing the most possible options for dairy farmers to sell their fresh 11 12 milk.

13 And not only that, but a healthy cheese making 14 community means that a wide variety of cheeses are being 15 produced in my state and across the U.S. The dairy 16 industry will thrive and grow if we're producing a wide 17 varieties of delicious cheeses from artisans, family 18 operations, cooperatives, and corporations. We have to 19 keep an eye on the goal of pleasing the consumer, even 20 when we're talking about issues that are in the weeds as 21 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.



These costs are our actual costs taken from our 2022 financial statements, and they represent our 2022 3 costs to produce colored cheddar cheese. At the bottom 4 line, we show a cost of \$0.3226 to produce colored cheddar 5 in 40-pound blocks, with labor representing 19% of the 6 cost, utilities 7%, packaging 14, non-labor and utilities 7 39, administration 11%, and a return on investment 11%.

8 I appreciate the opportunity to present this 9 information to USDA so they can use real-world example of 10 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.

18 Okay. Yes. To think that we don't take this Α. 19 seriously in our family on milk pricing, my two brothers 20 have a 500-cow dairy herd. You can imagine there's quite 21 some discussion on that. So the first phone call is 22 generally -- if milk price is low, I know where the first 23 phone call is coming, and it's going to be a nephew. So 24 we take it very seriously.

Our farms that we get our milk from, we have about 26 200 producers, they are probably all within about a 27 30-mile radius of our plant, and these are people we go to 28 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.

7

Q. Thank you.

8 Now, as I look at your -- we're going to have you 9 talk about your information in a bit of detail in a 10 minute, but I note if we turn to page 9 of 9, you have got 11 a breakdown, poundage, labor, etcetera, etcetera, leading 12 up to your total cost of \$0.3226 a pound, correct?

13

Α.

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.



5

6

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.

7 Two methods you can do this is using your audited 8 financial statement to show two different ratios. The 9 first ratio is your current assets divided by your current 10 liabilities cannot be greater than 1.25. The second one 11 is your debt-to-equity ratio; your total liabilities 12 divided by your equity and basis, has got to be less than 13 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 specificnumbers.

24 One of the -- some of the figures here that sort 25 of are calculated using the Dr. Stephenson approach, based 26 upon a valuation of your facilities; is that correct?

27

Α.

That's correct.

28

Q. And what did you actually use for that purpose?

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A valuation of the business? 1 Α. 2 Ο. Yeah. What did you have -- what did you have those numbers from? 3 From our 2022 audited financial statement. 4 Α. Okay. And had you had a valuation performed of 5 Ο. 6 your facility as well? 7 Α. Yes, we did. If you go to page 6, when it talks about the estimated market value of our business of 8 \$39,037,000 -- or 37 -- yes, that valuation was actually 9 10 done in 2020, simply because we had a death in the family and had to valuate the business for a stock retention. 11 12 0. So take us through your financials that are 13 attached. 14 Okay. If we can start on page 5, it shows the Α. 15 productions in volume. That will be important as we get 16 to the next page. You can see we can spell out the 17 cheddar cheeses, the colored cheddar cheese, and then the 18 other cheddar cheeses which are -- we like to call them on 19 the cheddar side, but they may be Asiago or Fontina, or 20 Queso, or Monterey Jack, or blue marble, or whatever. 21 There's a number of different cheeses, but they are all in 22 the 40-pound block. And all the labor is from that side 23 of the plant. The other side of the production is the 24 Feta cheese production, which represents 32.7. 25 If you add the two cheddars together, you will get a number of 38,972,027. And if you divide that by the 26 27 cheddar, the colored cheddar, you will see that that's 28 where the 40.53 comes through, and that is actually the



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

Q. Okay.

4

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.

9 As you skip down, you will see we put in there 10 what our Feta wages were, our milk hauling. Those are all 11 exempt. They are left out of there because they were not 12 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.

21 Just below that is gross wages. The gross wages 22 are all wages, including administration. So you will take 23 all of the wages, the gross wages on the first column to 24 your left, and then go down to under general 25 administration, you will see gross wages, general and 26 administrative. Those added together will give you the 27 6,871,000. Now, divide that by your benefit package, and 28 that's where you come up with 27.07. So if you move that



1	back up to your 27.07 times your cheddar gross wages will
1 2	give you the \$201,000 in benefits.
2 3	
	Q. That's what appears in the first is it the last
4	entry item under processing labor at the top of that page?
5	A. That's correct.
6	Q. Okay. Please continue.
7	A. So when you get through the wage part of that, you
8	will see when you add those numbers to the right, you will
9	come up with .0598.
10	Q. And that's your processing labor costs?
11	A. That's processing labor costs for colored cheddar
12	block.
13	Q. Per pound.
14	A. As you move down to utilities, that's electric and
15	gas times 27.25, which is the colored cheddar percentage
16	of our cheese, giving those are straight multiplied
17	across gives you the \$0.0226.
18	Q. And that's, once again, that's the cost per pound
19	for the cheddar cheese?
20	A. Colored cheddar cheese.
21	Q. Colored cheddar cheese. Thanks for the
22	correction.
23	A. Packaging, you will see that it asks you to go to
24	the packaging detail, which is on page 8. The average
25	weight of a block of colored cheddar at our facility is 43
26	and a half pounds.
27	Q. I'm sorry, are you on page 8 now?
28	A. Yes, I am.
÷.,	

Q. Okay. Thanks.

1

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, 5 6 every box that you put on a 40-pound block of cheese costs approximately \$0.58. Divide that by 43.50, and that will 7 8 get you your numbers. The same with the cost of the bag, the liner, the cost of the label on the outside. 9 That 10 will get you a .0392 if you add those top four numbers 11 together, divide it by 43.5 because that's how many pounds 12 are in each block, that will get you your cost per pound 13 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 6again?

28

A. Now we're back to page 6, non-labor and utilities.



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	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	Q. Non-labor or utilities, correct?
2	A. Yeah. Yep. Non-labor and utilities processing,
3	okay. In the ingredients, again, we have to move to
4	page 7 because there's some math into this side of things.
5	Q. All right.
6	A. Starter culture is a culture that you use to
7	actually produce cheese. You need a good bacteria. Once
8	you pasteurize milk, you are going to kill all the
9	bacteria in the milk, good and bad, so you need a good
10	bacteria or a mesophilic culture to put back into your
11	cheese.
12	We make our own starter powder, so that's where
13	this cost comes in as the starter ingredient. The powder
14	costs are \$5.36 a pound. It takes 62 pounds. And what
15	you are doing is you are dividing that by 9.56, because
16	you are going to get nine and a half vats of cheese out of
17	that.
18	So you take your cost times your unit, divide it
19	by 9.56 is your cost per vat. And then you divide that by
20	the 4,725 pounds of cheese that you get out of each vat,
21	will give you the cost per pound. That leads us up to the
22	.0075.
23	So if you take 536 times 62, divide that by the
24	9.56, and then divide it by the 4,725, that will get you
25	the cost per pound of starter powder.
26	The same with starter cultures. Once you have
27	made the starter, you have to put in, they're called
28	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.

10When you add those all together, you will come up11with 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.

27 Payroll taxes and benefits. If you go back up to 28 where it had the total of 1,860,000 there for total



12

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.
- Q. Okay.

12

13

14

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 costthen is?



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28	Q. In your and I first of all, I appreciate how
27	A. Thank you.
26	correctly.
25	sure. So thanks for clarifying what I didn't hear
24	Q. I thought I heard that, but I just wanted to make
23	numbers.
22	Stephenson's approach as closely as possible to get our
21	that. And that's why we tried to follow along
20	the numbers sent in, so I take full responsibility for
19	didn't get it tolled over to the controller in time to get
18	not wanting to, it was simply my fault. Didn't get it
17	did not participate in them, and it was not because of a
16	A. No. I believe I stated that at the start, that I
15	most recent surveys?
14	Q. Did you participate in both of Dr. Stephenson's
13	A. Thank you for having me.
12	Producers. Thank you for coming to testify.
11	Q. My name is Ryan Miltner. I represent Select Milk
10	A. Good morning.
9	Q. Good morning, Mr. Heiman.
8	BY MR. MILTNER:
7	CROSS-EXAMINATION
б	cross-examination.
5	MR. ROSENBAUM: The witness is available for
4	A. Per pound of colored cheddar cheese.
3	Q. And that's per pound of colored cheddar cheese.
2	we get to the final number, we're at \$0.3226 per pound.
1	A. The total cost when you add all those together and
	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

1 much data you have chosen to share with us. You obviously 2 know you don't have to do that, and some folks have and 3 some folks haven't. I think it is helpful to have the 4 information, so thank you.

5 And I'm looking at page 5 of your statement. And 6 I'm pretty clear what goes into the Feta category. But I 7 know Mr. Rosenbaum asked some questions of you, but if you 8 could go through, what's in the category of other cheddar 9 and jack? I think you mentioned some cheeses, but I want 10 to make sure I have them correct.

We probably do about 40 different varieties of 11 Α. 12 other cheeses, everything from Asiago, to Fontina, to 13 Parmesan, to Romano, on just the hard cheese sides of 14 things, along with Monterey Jack, Queso, and in the 15 Monterey Jacks we'll do a number of different flavored 16 cheeses. It's important for us to do this because, as I 17 stated earlier, if we were just a colored cheddar cheese 18 manufacturing plant, we could not possibly -- could not 19 possibly survive with the Make Allowances what they are as 20 of right now, so we need to go and invest into -- or 21 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?



25

A. Correct. You can -- you can use the same process -- or the same equipment, but you are -- and you're using the same block forms. It's coming out in 4 0-pound blocks, but it's not labeled as a colored cheddar 5 cheese.

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.

10 That changeover process for making all those 11 different styles, can you describe for us what goes into 12 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



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 think7 you can make a day on that cheddar line?

You can probably get four to five, depending upon 8 Α. 9 the varieties that you are doing. Some are certain -- I 10 mean, if you are going to make a horseradish, you are 11 going to make a pepper jack, or something with a 12 condiment, once you go to that style of cheese, you are 13 That's what you are going to be making the rest of done. 14 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.

28

22

Q. Do you pay them the federal price?



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	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	A. We pay by the Order 30, correct. We're governed
2	under Order 30 is where the Federal Milk Marketing Order
3	that we are under.
4	Q. When it's economically advantageous to you, do you
5	depool the milk?
6	A. Yes, we do.
7	Q. Do you share those proceeds with your patrons?
8	A. Yes, we do.
9	Q. I think it was on your website, that you actually
10	have the largest or the oldest cheese making facility
11	in the state of Wisconsin?
12	A. No, not in Wisconsin, but in Wood County,
13	Wisconsin. The original plant that we're at right now is
14	125 years old. The original facility burned down, and of
15	course some of the old wood buildings have from years gone
16	by, but it was rebuilt onto that same and it's been added
17	on and and it's pretty much maxed out to what we can do
18	now.
19	Q. 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.
22	Q. Well, we have heard too much testimony this
23	hearing about plants and fires, and and it's
24	devastating. But how when was the fire and when did
25	you rebuild?
26	A. Oh, that was that fire had to be probably
27	back the plant was built in 1885, so I would assume the
28	fire was probably around the late 1890s to 1900, so it's

1 been quite a while.

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?

9 That is correct. That's why we are asking about Α. 10 that the price of 40-pound block be across the board, not 11 just to the super -- or as they refer to the deadly 12 efficient plants of the West, so -- so that other 13 facilities can still survive. Because if you don't have 14 other facilities to buy that milk from that producer, you 15 are going to get to a monopolized state. And at that 16 point, you wouldn't have an Order 30, because they would 17 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 doyou 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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1 throughout? 2 Α. No. When we were younger, it was strictly a colored cheddar facility. When we came back in the late 3 '60s up until probably the mid-'70s, it was simply a 4 colored cheddar cheese plant. 5 Was it in the '70s and '80s then that you started 6 0. 7 making more of these specialty artisan cheeses? We started to move into some of the other things 8 Α. that were able to make it to the point of where we could 9 10 survive a little better in the industry, correct. So it's been a long time since the best business 11 Ο. 12 model for you was to just crank out 40-pound cheddar 13 blocks? 14 It has been a long time, yes. Α. 15 I know you have been here a couple days. I don't 0. 16 recall if you were here when Agri-Mark testified about 17 their cheese producing. 18 No, I was not. Α. 19 Okay. One of the things that they testified about Ο. 20 is that they will make 40-pound blocks and depending on 21 the quality of the output or whatever, they will select 22 the highest quality cheese for aging to be marketed as 23 Cabot cheese and the rest goes to a commodity market. 24 Does your plant do anything similar in terms of 25 segregating output for different markets? 26 Α. What we try to do is produce cheese to what our 27 customer is looking for, so we try to be defiant to 28 whatever our customer wants. We try to make sure if -- in



a best case scenario world, you would be able to label 1 2 every pallet as it came off the line where it was going to end up at the customer and who would be picking it up. 3 4 That doesn't always happen. When -- when cheese or cheese starts to slow down in sales and you need to put some into 5 6 storage, that will happen. But the fact is, at our 7 facility, we try to make our cheese as close to what our 8 certain customers so we can tweak it in one direction or 9 another to satisfy them for their end user.

10 Q. So your preference is you are making cheese to 11 order, correct?

A. Correct.

12

Q. Do you get a lot of orders for just straightunflavored 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.

22 Would those types of cheeses be included in your 23 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 also, on your website, say that you offer your
 block cheeses in 40-pound blocks, 10-pound prints, 5-pound
 loaves, 2.5-pound mini-loaves, and 1-pound chunks.

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

7 Α. No. This would -- that would be -- you are talking about cheese that's offered in a retail section. 8 9 So we would ship those 40-pound blocks that we manufacture 10 to a cut-and-wrap operation who would go and put those -and cut those into the styles that you had asked for, the 11 12 10-pound loaves, the 5-pound prints, the 2.5-pound chunks. 13 That would be an added cost. That has nothing to do with 14 the manufacturing costs of our cheese.

Q. And the underlying cheese, though, would be inyour 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?

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A. If it was an original block of colored cheddar,



1	the cost of the colored cheddar would be included there,
2	the cost of the sale of the colored cheddar. But the cost
3	of conversion of converting it to the overage that
4	you would pay to have it converted to the 5-pound loaves
5	would not be included into that, nor would any of the
6	labor or anything.
7	Q. So you would be selling it you wouldn't be
8	selling it to me as a 40-pound block, you would be selling
9	it to me as a loaf, and there would be costs for the
10	cut-and-wrap.
11	A. That is correct.
12	Q. Okay. Great.
13	Of the cheese that's listed in your as colored
14	cheddar on your breakdown, about how much of that is
15	actually sold as a 40-pound block reportable to the NDPSR?
16	A. All of it.
17	Q. All of it.
18	A. All of it.
19	Q. So if I'm buying your 10-pound loaf
20	A. We have to report that we made a 40-pound block of
21	colored cheddar. Now, if you have pulled that out of your
22	inventory to show that it went to a cut-and-wrap, you are
23	paying the overage over that colored cheddar to get your
24	piece into the size that you want.
25	Q. So who so you sell it as a 40-pound block?
26	A. Correct.
27	Q. Okay. And then if I'm buying 10-pound loaves,
28	that do I get a separate invoice from you or the
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TRANSCRIPT OF PROCEEDINGS

	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	cut-and-wrap operation for the conversion?
2	A. No, the cut-and-wrap operation will bill back to
3	us, who will make it one simple place for you to run your
4	bill to, will be directly to you, but there will be
5	included the cut-and-wrap operation will be included
6	into that price.
7	Q. That's very helpful to understand that. Thank
8	you.
9	A. Okay. You're welcome.
10	Q. You have a vat summary on here, and this is
11	page 7.
12	A. Okay.
13	Q. At the very top there you have vat summary. It
14	says yield per hundredweight, 10.5%. Is that really like
15	10.5 pounds? Or how do you calculate 10.5%?
16	A. What it is, is we have excellent farms. We have
17	very good solids, very good butterfat, simply due to the
18	genetics that they have, the food rations and things that
19	they have from our farms. So on an average, we are
20	generating a 10.5 yield on our cheddar, which means that
21	for every hundred pounds of milk, we should be able to
22	retain 10.5-pounds of cheese.
23	Q. So, yeah. I think I have seen it both ways where
24	somebody will say, I get a 10.5 pound yield, or a 10.5%.
25	A. Oh, no. 10.5% means that what that means is
26	out of that 45,000 pounds of milk, that's where they are
27	getting that 4,725 pounds of net cheese out of that vat.
28	Q. Very good.



1 What type of rennet do you use? 2 Α. We use what's called a Mucor miehei, or it's -it's a rennet that is plant-based or grown from a plant, 3 simply, because we do some organics, things like that, so 4 we can't use a true calf rennet, which would be something 5 that would come from a calf's stomach, which is what 6 7 rennet traditionally is from. This is a grown-up rennet. 8 So we buy it from one of our supplies. 9 Does that particular rennet come with any -- any Ο. 10 claims that it helps to increase the amount of butterfat 11 retained or anything like that or increase the yield? 12 Α. No. I mean, all rennets will tell you the 13 clotting ability that they have, but this one does -- it 14 isn't like it's a simple claim that said that if you use 15 my rennet -- well, any good salesman will tell you, if you 16 use their rennet, it's going to produce more cheese than 17 the other person's rennet. That's going to be a given. 18 But, no, it doesn't make any claim to that. 19 Ο. 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: 26 Q. Good afternoon, or --27 Α. Good afternoon -- or good morning. 28 Good morning, Mr. Heiman. Still not quite there Q.



1 yet. Let me see where to start. 2 So I just wanted to make sure that I understand some of what you have already talked about. 3 So we have -- you have just over 15 million pounds 4 of 40-pound blocks of the colored cheddar that was 5 produced in 2022; is that right? 6 7 Α. That's correct. Is this about an average amount of production that 8 0. 9 you would expect in other years as well? 10 This is pretty close to average, yes. We try to Α. 11 run our plant pretty efficiently with the fact that we run 12 full days Monday through Friday and a little bit of a 13 shorter day on Saturday, try to take Sunday off. 14 Okay. And has your production -- do you run at 0. 15 capacity, with those hours? 16 Α. Yes, we do. With the fact that the milk volume in 17 our area is such that we need to run at production to use up all of our milk. 18 19 Okay. And you have not had any issues in -- in Ο. milk supply? 20 21 No, we haven't. We have -- as I said, we have a Α. 22 fantastic group of farms that we get milk from, and so we 23 have been very fortunate. 24 So it's about a third of the production that runs Ο. 25 through your facility, maybe just a little under a third? 26 Α. Yeah. Between a quarter and a third, correct, 27 would go into the cheddar side, correct. 28 Okay. Your overall operation for processing Q.

1 facility, would you consider yourself to be on the smaller 2 side of the processors? I would say we're probably on the smaller side of 3 Α. processors when -- you know, we, process approximately 4 1.7 million pounds of milk a day. I don't know what the 5 number would be for a Glanbia or a Hilmar, but it's 6 7 probably maybe eight to ten times that amount. And I 8 don't know their numbers, but I would say that they are, 9 the larger plants are certainly a lot larger. 10 I think what you're producing in about -- in --Ο. for each year, Glanbia's producing in less than a month. 11 12 Does that sound about right? 13 That's sounds about right. Correct. Α. 14 And you would agree with me that there's 0. Okav. 15 some efficiencies that are gained when you have an 16 operation that can produce in that volume of quantity that 17 we just talked about with Glanbia; is that right? 18 Α. Exactly. 19 And I think you had talked about with Mr. Miltner 0. 20 that in some of your lines you are changing out the 21 product that you are producing four or five times a day 22 depending on what you are producing through there? 23 That's -- the goal is to be able to do that as Α. 24 quickly as you can, the most efficient way that you can, 25 to get the most return on your processing. 26 Okay. And it would be more efficient if you had Q. enough volume that you could have one line that just runs 27 one product at all times. 28



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?

9 A. That is correct, the large and the small. So you 10 are looking at, you know, the super efficient, or deadly 11 efficient person that can do it for \$0.22 a pound, to the 12 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.

20 Q. And I just love that Mr. DeJong's deadly 21 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



1	and all the other things that they can build in their
2	modern technologies. How would you weight those?
3	A. That's a very tough question, and that's why we
4	come to the people with USDA and present our information
5	to them and have their expert analysis go about putting
б	these numbers together to make it the most efficient for
7	every plant to survive and thrive.
8	Q. And you have family members that you mentioned
9	are
10	A. Correct.
11	Q are dairy farmers?
12	A. Yep.
13	Q. And so you you have and I think maybe a
14	little touched by the struggles and the balance that you
15	have to try and reach; is that fair?
16	A. Exactly.
17	Q. And you understand that many of the cooperatives
18	are in similar positions where they process on one side,
19	and they have an ownership that is representative of the
20	dairy farming community that has struggles on their side
21	as well?
22	A. That's correct.
23	Q. And that's the balance that we have to strike in
24	making sure that we set the Make Allowance at the right
25	level; is that fair?
26	A. That's fair.
27	Q. And would you agree with me that it's important
28	that we don't set the Make Allowance too high?



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1 Α. It's important that you don't set it too high. 2 It's important that you don't set it too low. 3 And --0. There's a -- a flip side to everything. There's Α. 4 an action and reaction to everything. And, again, that's 5 where I push it over on to USDA to take the information 6 7 that they gather and to utilize that information to an 8 algorithm and come up with a good Make Allowance that is 9 good for everyone, including the dairy farmer. 10 And you can appreciate, or maybe even empathize, 0. with the burden that that puts on them in order to make 11 12 sure that they hit that right balance, that it's not too 13 low and it's not too high? 14 That's correct. Α. 15 And you understand that they don't have a black Ο. 16 box to put this algorithm into to pop out a magical 17 number; is that fair? 18 No one has that. You are correct. Α. 19 And do you agree that it's important that we have 0. 20 accurate information that's reflective of the processors 21 actual Make Allowances? 22 Α. That's why I want and had our controller break 23 down things and share as much information as I did today 24 of what our processing costs are, so that you have a true 25 and accurate account of what it costs to produce 40-pound 26 blocks at Nasonville Dairy. 27 Ο. And I appreciate that, because I can -- I can tell 28 that it's a considerable amount of work for your team to



be able to put that information together. 1 2 You understand that National Milk's position is that it wants to increase Make Allowances as well? 3 That's correct. They understand that that --4 Α. that's their also -- I mean, I can understand their 5 platform with the fact that they understand that the 6 7 processors need to survive if they want to sell -- if they 8 want to sell milk. 9 And you understand that they have also -- while Ο. 10 they want to increase Make Allowances, they want to make sure that it's not set too high as well? 11 12 Α. I understand their side, correct. 13 And -- and I think we have already talked about 0. 14 that, but you agree that you don't want to set them too 15 high either? 16 Α. Correct. 17 And you understand that National Milk is Ο. 18 advocating for a mandatory audited cost survey that would 19 allow the USDA and the industry to have full confidence in 20 the numbers that are used to set Make Allowance. 21 I believe that's true. Α. 22 Ο. And do you agree that you also would like to have 23 a mandatory audited cost survey so that your nephews and 24 your brothers that are involved in the dairy farming industry can have confidence that the Make Allowance 25 26 numbers that are set are also accurately set? 27 Α. My feelings can't be portrayed as what industry 28 would like to see or like to do, so I will have to defer



1 from that question. 2 Ο. And I don't want you to speak on behalf of the I just want you to speak on behalf of 3 industry. 4 Mr. Heiman today. Do you agree that you would like to have an audited mandatory cost survey so that you could 5 have confidence that the numbers that are used to set 6 7 Make Allowance accurately reflect what's in the industry 8 today? 9 I'm not sure I want more regulation. So, no. Α. 10 So you don't want a mandatory audited cost survey? Ο. 11 Α. I don't believe it will happen. 12 Ο. Why not? 13 It's just my answer. That's just my belief. Α. And let's assume that it -- it is an -- is an 14 0. 15 option for it to actually happen, and there's an option 16 for USDA to be able to use audited mandatory cost surveys 17 to set Make Allowance. Would you agree with me that that 18 would be a more accurate way to set Make Allowances? 19 For one type of cheese. Α. 20 And that would be for cheddar? Ο. 21 Correct. Α. 22 Okay. And that's actually what we're looking at, 0. 23 in any -- any change that's being proposed, is that it 24 would be -- it would be set for just cheddar cheese? 25 Α. T --26 Is that right? Q. 27 Α. You made a statement. I didn't know where you 28 were leading there.

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1	Q. Well, they always end with a question mark.
2	A. Oh.
3	THE COURT: I think she's asking you to confirm
4	that that's so.
5	MS. HANCOCK: Right.
6	BY MS. HANCOCK:
7	Q. Is that right?
8	A. That's what you are referring to, correct.
9	Q. Even under IDFA and WCMA's proposal, you
10	understand that you are proposing a Make Allowance that's
11	just set based on cheddar cheese prices; is that right?
12	A. That's what National Milk is promoting is if
13	that's what you are asking me, if National Milk is asking
14	to do that, that is I believe that is their stance.
15	Q. And that's also what IDFA and WCMA is offering as
16	well
17	A. Correct.
18	Q is just a different price, but based still on
19	just cheddar cheese?
20	A. Correct.
21	Q. And that's actually in your Exhibit 203, that's
22	what you calculated, and then you did a lot of extra work
23	to make sure that your allocations were attributed to just
24	your cheddar cheese?
25	A. That is correct.
26	Q. So if everybody's in agreement that we're going to
27	price it based on cheddar cheese, would you agree with me
28	that the best way to do that and to ensure the accuracy
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1 would be to have a mandatory price survey? 2 Α. That would be something you would have to pool all the plants to do. So that would be -- it would be an 3 4 intriguing and a boatload of work for USDA. But it would make the information more accurate; 5 Ο. 6 would you agree? 7 Α. If everyone had participated and -- had I had not forgotten and had everyone participated in the Mark 8 9 Stephenson survey, it would have been the same situation 10 if you are asking that, correct. 11 MS. HANCOCK: Thank you so much for your time 12 today. I appreciate it. 13 THE WITNESS: You're welcome. 14 REDIRECT EXAMINATION 15 BY MR. ROSENBAUM: 16 So the -- Steve Rosenbaum for International Dairy 0. 17 Foods Association. 18 The total cost that you have calculated for making 19 cheddar cheese if you are -- for your company is \$0.3226 a 20 pound; is that correct? 21 Α. That's correct. 22 Now, are you aware that under the proposals by the Ο. 23 International Dairy Foods Association and the Wisconsin 24 Cheese Makers Association, the Make Allowance for cheese 25 would be raised to \$0.3006 per pound? 26 Α. Over a four-year period. That would be a step-in 27 approach. I'm giving you real numbers from 2022 here. 28 You're looking at the total increase would be over four



TRANSCRIPT OF PROCEEDINGS September 15, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 years. So, therefore, four years from now we'll be close 2 to what it costs me today. So just -- and you're ahead of me. 3 Ο. So -- but IDFA is proposing a staggered 4 implementation of an increase in the Make Allowance, 5 6 correct? 7 Α. That's correct. And WCMA follows along with that same platform. 8 9 And even in year four, which is the January 1, 0. 10 2028, number, that number rises to and stops at that point at \$0.3006, correct? 11 12 Α. That's correct. 13 So you will still not have your cost of 0. 14 manufacture covered even five years from now? 15 Correct. We still will not -- it will be closer, Α. 16 but we will not have all of our costs for producing 17 colored cheddar cheese. 18 Okay. And the National Milk proposal is to 0. 19 increase the Make Allowance to \$0.24 from its current \$0.20. 20 Are you aware of that? 21 Α. That's correct. 22 Ο. And does that leave a considerable gap between --23 Α. That does. 24 -- between -- between your cost of manufacture and Ο. 25 their proposed Make Allowance? 26 Yes, it does. Α. 27 Ο. If you take -- as I think this is a given, that 28 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 the record. 3 Have you experienced cost increases since 2016 in 4 your manufacturing of cheddar cheese? 5 As everyone has. I mean, you -- it doesn't matter 6 Α. 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 Ο. Thank you for coming to testify today. 23 Thank you for allowing me to be here. Α. 24 You mention you have 200 farm suppliers. 0. 25 Are those independent shippers? 26 Yes, they are. Α. 27 Ο. You talked about how Nasonville pools milk but 28 will also choose to depool milk when it is financially



1 advantageous to do that. And you did talk about how when 2 the company does that, you do share some of that revenue 3 with your producer suppliers; is that correct?

A. Correct.

4

In a normal month, there's been some discussion 5 Ο. about how are producers being impacted by -- as people are 6 7 terming them -- inadequate Make Allowances, so I wanted to 8 hear a little bit about how you're able to cover what 9 is -- based on what you have presented here, are 10 Make Allowances that don't cover your cost of cheddar and maybe how that's reflected in your producer pay prices for 11 12 your direct shippers.

13 Well, we're in a direct competition with a number Α. 14 of other dairy plants in Central Wisconsin, so we 15 certainly need to pay a very competitive price to hang on 16 to our farms, because if they are not shipping with us --17 although all plants are getting pretty full, but they --18 they have the ability to ship their milk where -- we don't 19 hold a contract with any of them. So if they want to call 20 me tomorrow and say they want to ship their milk somewhere 21 else, they certainly can. So our best way is having a 22 good sales staff that can go out, sell our product, and 23 get us a good return on to our cheese, so that we can 24 continue to be competitive in the market for the milk 25 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



1 the producers, whether it be quality or quantity or -2 those situations, I'm not coherent. I don't know those
3 answers, but I do know we do have premiums.

Q. Thank you.

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
8 producers -- most dairy plants have.

9 Q. And for your 40-pound blocks, as I understood it 10 with your conversation with Mr. Miltner, you will sell 11 those to entities, but they then go on and get further 12 broken down to whatever more retail sized packaging is 13 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.

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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 ofthe CME block price, correct.

27 Q. I just had a quick question, if you could turn to 28 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?

5 A. No. That's actually bringing in raw material from6 the warehouses.

7

Q. Okay.

Ο.

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.

13 14 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.



1	Q. Okay. And my last question and Mr. Rosenbaum
2	hit on that a little bit under year four, the IDFA
3	proposed Make Allowances would not cover your
4	Make Allowances as you've given us the information for
5	2022.
6	How are you going to deal with that?
7	A. The same way that I'm dealing with it right now in
8	its \$0.12 difference.
9	Q. And how is that?
10	A. You are going to try and find a type of cheese or
11	an almost an artisan type brand where you can probably
12	get a higher return on your cheese, or a higher yielding
13	cheese to create the most amount of income that you can,
14	so that you can continue to survive.
15	Q. So put it another way, you will look to make less
16	40-pound cheddar and more something else?
17	A. In a perfect world, yes.
18	Q. Right.
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.
23	REDIRECT EXAMINATION
24	BY MR. ROSENBAUM:
25	Q. One quick correction on an error introduced into
26	the record by Mr. Rosenbaum.
27	The proposed Make Allowance is \$0.284. I don't
28	know where I got the \$0.30 figure from.
۰.,	



1 Α. I was pretty excited about going up to \$0.30. Ι 2 was just going along with it. I thought I could maybe get a couple more cents here. 3 And with that self-correction, but, you know, that 4 0. simply further demonstrates that the Wisconsin Cheese 5 Makers Association, IDFA proposals would not themselves 6 7 actually cover all of your current costs of manufacturing, 8 even as they reach their peak in 2028, correct? 9 It would -- it would rely on us to become Α. Right. 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:



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	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	THE COURT: Your witness.
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?

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 It's in the written part, but I'm just following the 2 pattern here. And you're being a lawyer now, too. Yes, please, 3 Ο. 4 do that. Α. Robert Wills, R-O-B-E-R-T, W-I-L-L-S. 5 The address of our factory is E5904 Mill Road, or Post Office Box 185, 6 7 Plain, Wisconsin, 53577. Thank you. 8 Ο. 9 Sorry about that. Α. 10 No, no apology. Ο. 11 THE COURT: I appreciate that. THE WITNESS: 12 Today I want to discuss how 13 Make Allowances impact farmers who sell milk to companies 14 like Cedar Grove Cheese, and why higher Make Allowances 15 are beneficial for us and for the dairy market. 16 Attached is a spreadsheet showing the cost of 17 production for cheddar at Cedar Grove Cheese. The data 18 were not included in previous compilations. Our costs at 19 about \$0.77 per pound are on the highest end of those 20 discussed in these hearings. 21 And to be clear, we are not advocating at this 22 time for our cost to be a national standard for 23 Make Allowance. We are able to recoup some of our higher costs by providing better products and services than most 24 25 commodity cheddar. 26 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



Cedar Grove Cheese was one the first small 1 farms. 2 factories to participate in the Federal Milk Marketing Order. We installed a Grade A receiving station and 3 4 provided pooling services for several other small plants to qualify their milk. However, in the last couple years, 5 we had completely left the market order, and this year we 6 7 have been pooling milk from less than half of our 8 producers.

9 In these hearings, as in the -- as in the past, 10 academics and advocates have been discussing how to set 11 the Make Allowance for commodities used in milk pricing 12 formulas. Typically, the appropriate value for the 13 Make Allowance is viewed as one that exceeds the cost of 14 production of processors of some percentage of the 15 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.

26 Most testimony on Make Allowances describe a 27 zero-sum game. Any addition to Make Allowances is viewed 28 as reducing returns to farmers. A higher Make Allowance,



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 3 4 market order pool only generates a certainly amount of total product sales. The formulas are complicated, but 5 6 ultimately, the money available to pay farmers is no more 7 than the value of those sales less the cost of making the The market order Make Allowances do not 8 products. 9 determine either consumer purchases of dairy products or 10 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?

14

Q. 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.

28

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



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, 6 7 no processing company wants to depool its farmers' milk. 8 Depooling gives up those farmers' share of money generated from class premiums, the tax on consumers of milk. 9 In 10 that case, the pool money goes to competing firms that are then able to keep their -- that are able to keep their 11 12 milk in the market order, and those competing firms get an 13 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.

20 Proprietary firms, meanwhile, must pay each and 21 every farmer a higher price. Although USDA decided that 22 the market order administration does not have the 23 authority to correct that inequity directly, setting high 24 Make Allowances is a different way to help meet your 25 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



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.

8 Lower Make Allowances mean the pool draw will go 9 to some other farms. Farmers will not receive equal 10 treatment under the order and competition for dairy 11 products will deteriorate further. Thank you very much.

Q. Thank you very much.

MR. ROSENBAUM: The witness is available for examination.

CROSS-EXAMINATION

16 BY MR. MILTNER:

12

15

17

18

Q. Good morning, Mr. Wills.

A. Good morning.

Q. 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)."

26 With that parenthetical, are you suggesting that 27 that's where the Department should set the Make Allowance 28 mark?



	TRANSCRIPT	OF	PROCEEDINGS
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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 Α. No, it's just a number that has been used --2 0. Okay. -- in the -- I believe in this hearing and in 3 Α. 4 other situations, yes. And on the second page you have a line that says, 5 0. "I remember when Make Allowances were more than adequate." 6 7 Do you remember when that was? Well, we were able to pool milk up until about 8 Α. 9 four years ago or five years ago, when it became -- when 10 we took most of our milk out of the pool, because there wasn't a value in being --11 12 (Court Reporter clarification.) 13 THE WITNESS: When there wasn't value for us in 14 being in the market order. 15 So to clarify that, you know, we have to balance 16 out whether the -- whether paying the minimum price that's 17 required by the market order is possible while -- without 18 losing money, and whether there's sufficient return in the 19 PPD to be -- to justify staying in the -- in the -- to 20 justify staying in the order and getting that money for 21 our producers. 22 So when either the Producer Price Differential is 23 small or -- or when the cost of -- when the revenues from 24 the market order that -- from sale of the products in the 25 market order are not sufficient to cover our costs, 26 then -- then we have to leave. 27 BY MR. MILTNER: 28 And that turned, for your plant, your business, Ο.



1 sometime four or five year ago you think? 2 Α. That's when we made the decision that we were not able to be in, yeah. 3 4 Okay. So the next paragraph down begins, "Under Ο. normal conditions, with positive pool draws, no processing 5 company would want to depool its farmers' milk." 6 7 And if I could add my understanding of what you are saying there, is that when there's a strong positive 8 9 difference between the blend price in Class III, that 10 positive difference allows you to pay your patrons more 11 than if they were not participating in the order, correct? 12 Α. That's correct. 13 So there's a proposal in this hearing that would 0. 14 reduce the Class I differential by \$1.60, making the 15 Class I differential \$0.20 in your part of the world. 16 What would that do to your ability to participate 17 in the pool and attract producers to your plant? 18 The only reason for the market order is to Α. 19 distribute the -- the tax money, the surplus revenues from -- from the premiums. And so, you know, basically 20 21 all the rules are determining who gets that money. I --22 if there is no pool there, then the only thing -- then the 23 only service the market order is providing is, is 24 information, which is valuable. So, you know, I'm not 25 really here to testify on the Class I, but -- but 26 personally, if the -- if the pool money disappeared 27 completely, it would create a more even playing field for 28 all of us.



	A CONTRACT PEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	Q. Would it make it easier or harder for you to
2	attract milk to your plant and pay your producers if the
3	Class I differential were \$0.20?
4	A. So if there were if there were not a pool draw
5	for the people who are competing against me, it would
6	it would make it easier for me to compete.
7	MR. MILTNER: Okay. Thank you very much.
8	THE COURT: Anyone else other than AMS?
9	THE WITNESS: Good morning.
10	CROSS-EXAMINATION
11	BY MS. HANCOCK:
12	Q. Good morning.
13	A. It's still morning, right.
14	Q. I keep looking. It's not moving very fast.
15	So thank you for being here. I just have a couple
16	of questions.
17	You're a small cheese processor; is that right?
18	Would you characterize yourself as small?
19	A. There are smaller ones.
20	Q. Okay. On the spectrum of sizes of processors
21	A. Certainly in terms of people who are testifying in
22	these hearings, we are probably the smallest, yes.
23	Q. And and you just heard me ask the prior witness
24	the question about efficiencies in operating large plants
25	versus small plants.
26	Do you remember that?
27	A. What is there a question? I I I know you
28	had that conversation with him, but I may have been out of
1	

1 the room. I'm not sure. 2 Ο. Okav. Is it fair to say that in operating a small plant there's oftentimes less efficiencies than in 3 4 operating the larger plants? There are lower efficiencies if you are only 5 Α. looking at costs. There's also much more in terms of 6 7 flexibility and quality. And so all sizes of plants, I 8 think have things to contribute to the market. And I was doing a little bit of online research, 9 0. 10 and it looks like that flexibility and the quality you talk about is actually one of -- one of the things that 11 your brand is built on; is that right? 12 13 That's correct. Α. 14 And, in fact, you're award-winning in your cheese 0. 15 making, I saw. 16 Α. We do pretty well on awards, yes. 17 0. Okay. And that's -- those premium products are 18 reflected in the processes that you've built into your 19 plant operations; is that right? 20 That's correct. Α. 21 And in order to produce those premium quality 0. 22 levels, it requires a higher cost of production; is that 23 fair? 24 Α. Yes. 25 And have you had that same brand recognition since Ο. 26 you joined the operations I think back in the '80s? Has 27 that philosophy stayed the same throughout that whole 28 time? TALTY COURT REPORTERS, INC.

1	A. Absolutely, yes. In fact, we've gone away from
2	commodity cheese production. We have moved more of our
3	production away from commodity cheese production and more
4	into into products that take advantage of our
5	experience.
6	Q. Experience in making those quality premium cheese
7	products?
8	A. Yes.
9	Q. And and with that, that has an effect on the
10	cost of your production as well; is that fair?
11	A. Yes.
12	Q. So even I think on your calculations that you
13	have included here, you have done it on a straight line
14	percentage allocation based on the volume of the products;
15	is that right?
16	A. I'm sorry.
17	Q. You have done
18	A. We have allo how we allocated the expenses; is
19	that what you are saying?
20	Q. Yes.
21	A. Yes.
22	Q. You have done that on a percentage of your total
23	costs commensurate with the volume that the percentage of
24	volume that you produced for cheddar cheese?
25	A. That's true to a degree, although there's some
26	expenses which were which are associated with the
27	that were excluded because they were, you know, things
28	that go beyond like packaging expenses, and and sheep



1 and goat milk cheeses, and transportation, so -- so among 2 the things we do are customized cheese where we will take milk from a single farm, for instance, and those expenses 3 4 would not have been included in the analysis.

Things that were unique to the non-cheddar 5 Ο. Okav. products you have already pulled out; is that right? 6

7

Α. Right.

8 But the things for the shared cost expenses, you Ο. 9 have just allocated the percentage to cheddar that is 10 commensurate with the volume of cheddar that's produced? Α. Right.

11

12

Ο. And I just want to --

13 And, again, though, I -- so what -- so part of the Α. 14 myth of this whole -- of this whole hearing is that 15 cheddar is cheddar. And so, you know, there are a lot of 16 variations on cheddar, and we have included in the -- in 17 the 23% of our production, those things which would be 18 reportable. But so -- so -- so we do have higher expenses for making cheddar than would be standard for most 19 20 producers, because we make a different style of cheddar 21 than some other people do.

22

25

Okay. Appreciate that. 0.

23 And that's what's reflected in the numbers in your 24 chart here?

Α. Right.

Just.

26 And just one clarification. If you can turn to Q. page 5 of your --27

28 Α.



TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

1	Q of your statement.
2	A. So I scrambled my pages, would you could you
3	just tell me where it starts?
4	Q. Sure. It's the general ledger.
5	A. Oh, okay. Yep.
6	Q. Next page over, I believe.
7	Do you have the general ledger?
8	A. Yes.
9	Q. And on the comment column it looks like
10	A. Oh, yeah, there's an error there.
11	Q. Yeah.
12	A. So so in order to have comparability and we
13	were in we benefitted by having Nasonville share
14	their their model with us. And so all of the lower
15	part there, if you do the math, it's really the 21.03 is
16	used as a multiplier rather than the 27.25 as the label
17	says, as the comments say.
18	Q. Okay. So just to be clear, you used Mr. Heiman's
19	spreadsheet, but your math is correct, just the comment
20	column doesn't reflect the correct spreadsheet.
21	A. That's correct. Yeah.
22	Q. Okay. And then you say in your statement I'm
23	back on page 2. It says, "In June, I made a request for a
24	market order amendment to be included in this hearing."
25	That's the WCMA proposal for Make Allowances? Is
26	that what you are referring to?
27	A. No. When there was first a request for for
28	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:
26	Q. Good morning.
27	A. Good morning.
28	Q. Nice to see you today.

1 Α. Yeah, thank you. 2 Ο. I don't think you listed in here about the number of employees Cedar Grove Cheese has. And I ask, because 3 4 we want to get information on small businesses, which for cheese manufacturers is those with less than 1250 5 6 employees. 7 Would you be a Small Business? 8 We are seriously smaller than that. We have about Α. 30. 9 10 See you can't get -- seriously small defined. 0. 11 Α. Yeah. 12 0. Okav. Thank you. 13 And you have 30 farms shipping to you. Is that 14 independent shippers? 15 Α. Yes. 16 And you talk throughout your two pages about not 0. 17 being able to pay minimums and that kind of influences 18 your decision on whether to pool that milk or not. 19 Α. Correct. And on the second -- second page of your statement 20 0. 21 you say that cheesemakers are then forced to take our 22 farmers' milk out of the order. 23 I could read that statement to say -- when I read 24 that statement, one can infer that you'd actually prefer 25 to stay in the order if you could. Is that a correct --26 Α. Yes. 27 Ο. -- inference? 28 We would like our producers to have access to the Α.

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.

11 So -- so over, you know, in the last year I think 12 there was a -- periods when the attributed value of whey 13 for cheese manufacturers was somewhere in the 2.5 to \$3 --

14

15

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



1 would term historical alignment? 2 Α. When PPDs go negative; is that what you are 3 referring to? Yeah, or Class III is above I, or high enough that 4 0. it would be -- you would have to pay into the pool. 5 I think it's a real disorder in the 6 Α. Yeah. 7 marketing when farmers supplying cheese plants have to pay 8 money to keep -- to bottling plants and in that -- or to 9 other to other classes. And so it really makes -- I think 10 it's inappropriate for us to keep our producers in the 11 order if they are having to have money deducted from their 12 checks to pay into other classes of milk producers. 13 Okay. In those circumstances, do you share any of 0. 14 the money that you aren't putting into the pool with your 15 producers? 16 Α. We're always paying our producers as much as we 17 can pay them. So by not having to deduct that money from 18 the -- from their checks that would be paid into the PPD, 19 they get more money. 20 0. Okay. So your pooling decision does impact how 21 you pay your farmers? 22 Α. Yes. 23 For your 40-pound blocks, you -- so as I read it, 0. 21.03% of your production in 2022 went to 40-pound blocks? 24 25 Α. Yes. And then, what do you do with those -- I don't 26 Q. 27 think that's been covered, and if it has, I apologize --28 but do you sell those blocks directly? Do you age some?

-	
1	How does that work on your operation?
2	A. So we so we're not including aged cheese
3	well, I guess, it some may end up being aged. Most of
4	that cheese is being produced for other customers, some of
5	whom may use it in producing and shredding in their own
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
8	Q. You don't keep it and age it?
9	A. Well, we keep too much to age, but, yeah.
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?
16	Exhibit 204 is admitted into the record.
17	(Thereafter, Exhibit Number 204 was received
18	into evidence.)
19	THE COURT: Thank you, sir.
20	Break for lunch? Half an hour enough?
21	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	statements for those farmers, if you could pass them out
26	in advance, then we don't have to spend time doing that in
27	the moment.
28	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 2 THE COURT: Let's go on the record. Thank you very much, your Honor. 3 MS. CLIPPINGER: Good afternoon. My name is Lucy Clippinger, 4 5 L-U-C-Y, C-L-I-P-P-I-N-G-E-R. I'm with Baker & Miller, PLLC, and I'm here on behalf of Dairy Farmers of America. 6 7 THE COURT: Very good. Welcome. Okay. Are we ready to go otherwise? 8 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 If the team wants to put her on the screen. Penterman. 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 testified as follows: 21 22 THE COURT: Your witness, Ms. Taylor. 23 MS. TAYLOR: Okay. Thank you for joining us, Ms. 24 I think from the list I saw, you are here Penterman. 25 representing Edge Dairy Cooperative; is that correct? THE WITNESS: That is correct. 26 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.
3	MS. TAYLOR: I'm noticing on our website we have
4	Edge I think it got updated and there was an error. So
5	it lists Edge-9, but there's no live link, and I do have
6	someone looking into that right now, so it will go live
7	here shortly.
8	But in the meantime, I think you can just read
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
15	next Exhibit Number for that statement? I don't seem to
16	have a copy.
17	MS. TAYLOR: Yes, we're working on that. That
18	would be that would be great. And I will mark that
19	down, your Honor.
20	THE COURT: Okay. So let's when we get the
21	copy for the record of the statement, that is Edge-9, it
22	will be marked as identification 205.
23	(Thereafter, Exhibit Number 205 was marked
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.



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TRANSCRIPT OF PROCEEDINGS

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. Τn 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 20 and owned. We have 12 full-time employees and four 21 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. 27 With three young boys, we are positioning our farm to be efficient and of size to bring in the next 28



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

One key aspect of economic sustainability is 3 4 effectively managing our price risk. As market prices fluctuate significantly in short periods of time, our farm 5 and other farms like it need the effective tools to ensure 6 7 a certain amount of price certainty. If Dairy Revenue 8 Protection were to be suspended for any amount of time, 9 farmers would lose a valuable tool that helps them 10 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



28

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. Is there -- are there questions for this witness 4 from anyone besides AMS? 5 Mr. Munch. 6 7 CROSS-EXAMINATION 8 BY MR. MUNCH: 9 Hi, Amy. My name is Danny Munch. I'm with the Ο. 10 American Farm Bureau Federation. 11 Can I just ask, are you a Farm Bureau member? 12 Α. Yes, I am. 13 That's great to hear. 0. 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 18 utilize DRP and some forward contracting on our farm, and 19 being an insurance agent myself, we really try and 20 protect, go out probably six to 12 months at a time. And, 21 you know, you there are some gaps in there that we weren't 22 able to protect. Even over this past summer, prices the 23 way they dropped, there's -- there just wasn't a lot of 24 protection out there. 25 We also experienced a roof loss from a heavy snowfall too, and so we kind of had a double sword whammy 26 27 against us as prices continued to drop. 28 And so it's really challenging as a farmer when



1 you are trying to plan out the next year or two and 2 continue to be relevant in the market to have that floor protected, but it's really important that you stay on top 3 4 of it also. MR. MUNCH: Thank you. That's all I had. 5 Anyone else other than AMS? 6 THE COURT: 7 Seeing none, AMS. Ms. Taylor. CROSS-EXAMINATION 8 BY MS. TAYLOR: 9 10 Good afternoon. This is Erin Taylor with AMS. 0. 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 So today being September, I am looking out to Α. 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 Thank you. Ο. 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 28 received by the producer in a way already reflect some TALTY COURT REPORTERS, INC.

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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.

10 So you're banking on -- you are looking at the futures prices and what -- what's predicted out there, but 11 12 when you actually get your check, and with these negative 13 PPDs, some months it could be \$0.25 lower, some months it 14 could be negative \$0.70, or even higher. And so that 15 really makes a huge difference on your bottom line when 16 what you think you're protecting and what you are getting, 17 there's a gap there. And there's nothing to protect you 18 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,



TRANSCRIPT OF PROCEEDINGS

HE COURT: Very well. S. TAYLOR: Okay. I think up next Steve Pierson. HE COURT: Mr. Pierson, please raise your right 'm Judge Strother, by the way. I'm presiding proceeding. And I need to swear you in, sir, r right hand. I can see you. oparently, we were on mute. I'm Judge Strother. over this hearing, and I need to swear you in as lease raise your right hand.
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HE COURT: Very well.
and make chem hard copred on honday.
m off and have them hard copies on Monday.
, is we can reserve those numbers, and we'll
n't have printed copies. So that's what we did
from Edge that whose statements are online,
S. TAYLOR: Your Honor, we do have a number of
hank you very much.
camera or whatever it is at your location.
rman, and I guess that's it. You may step away
appreciate you testifying before us today,
We won't need the witness here for that, I don't
guess we'll wait until we get hard copies of the
HE COURT: Very well. Anyone else?
S. TAYLOR: That's all from AMS. Thank you.
ep.
kay. Thank you.
entertaining to look at third quarter.

TRANSCRIPT OF PROCEEDINGS

September 15, 2023

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 STEVE PIERSON, 2 Being first duly sworn, was examined and testified as follows: 3 4 THE COURT: Very well. Your witness. DIRECT EXAMINATION 5 BY MS. VULIN: 6 7 0. Hi, Mr. Pierson, this is Ashley Vulin. I'm an attorney with the Milk Innovation Group. How are you 8 9 doing? 10 Α. Good. Good morning, Ashley. 11 Ο. Good to see you. 12 Α. Actually good afternoon where you are, maybe. 13 We call it -- we're here all day, so it doesn't Ο. 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-T-E-R-S-O-N. Our address is 22431 River Road Northeast in 19 St. Paul, Oregon, 97137. 20 21 Thank you, Mr. Pierson. Q. 22 And do you have in front of you your statement? 23 T do. Α. 24 Ο. And could you share that with us today, please? 25 I certainly will. And -- but before I get Α. 26 started, I do want to tell you how honored I am to have 27 this opportunity to address you, Judge Strother, and the 28 USDA. So thank you so much for this opportunity.



1 0. And should we -- sorry to interrupt. Before you 2 start reading. MS. VULIN: Do we need to give it an exhibit 3 4 number now? 5 THE COURT: Yes, might as well. Let's reserve -or as far as I'm concerned it's marked as 206 now, and 6 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. THE COURT: MIG-14 is now 206. 10 (Thereafter, Exhibit Number 206 was marked 11 12 for identification.) 13 MS. VULIN: Thank you. 14 BY MS. VULIN: 15 Sorry to interrupt, Mr. Pierson. Ο. Okay. 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 28 ago, I just got done doing my morning tours on the dairy.



1 BY MS. VULIN:

4

5

2 Q. And, Mr. Pierson, I'll just remind you to go nice 3 and slow for our court reporter, please.

A. Sure. Sorry.

Q. Thank you.

A. We operate a USDA certified organic dairy near
St. Paul, Oregon. We're about 30 miles south of Portland.
8 We ship our milk through CROPP cooperative.

9 At Sar-Ben Farms we milk about 285 cows and we 10 manage about 700 animals in total when you include the 11 non-lactating youngstock and the dry cows. I graduated 12 with a Dairy Science degree from the University of 13 Florida, and while I didn't come from a dairy background, 14 I have now over 30 years as dairy farmer. I'm actually a 15 first generation dairy farmer.

16I know USDA is interested in whether we are a17small business or not, and the answer is yes, we are a18small 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.

7 The farm is the primary income for five family 8 households and much of the labor and day-to-day management 9 is carried out by our family members. We also have two 10 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.

21 Part of what drew us to CROPP Cooperative was not 22 only the opportunity for a higher, more stable and 23 predictable pay price, a challenge that we just heard the 24 previous witness, you know, speak about very eloquently, 25 in the conventional market, but also the mission to 26 really -- that really resonated with us.

27 And I'll state our mission for you. It is "to 28 create a cooperative" -- "to create and operate a



1 marketing cooperative that promotes regional farm 2 diversity and economic stability by the means of organic 3 agricultural methods and the sale of organic" -- or 4 "certified organic products."

5 In a nutshell what we're saying is we want to 6 support small family farms and the rural communities that 7 they exist in.

8 In 2005, we became CROPP Cooperative members. 9 While the co-op has over 1600 members nationwide, as of 10 today we have around 80 farm members in the Pacific 11 Northwest as well as a processing plant in McMinnville, 12 Oregon. This plant has been used for standardizing farm 13 milk, some butter and powder production, and the co-op 14 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.

21 With a supportive family, I was able to run for 22 the CROPP Cooperative board in 2012 and was honored to be 23 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.

28

Decisions in the board room impact all the



1 thousands of the farmer members that we have, as well as 2 the 900 employees that are dedicated to our mission and to 3 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 6 7 are operating on an extremely competitive landscape. The 8 Federal Milk Marketing Order regulations have an outsized impact on a cooperative, creating a multimillion dollar 9 10 pool obligation annually and provide no benefit to our 11 members or the cooperative. It is detached from our core 12 business of sourcing organic milk, processing organic 13 milk, and selling or marketing organic milk.

14 At the cooperative, we as the board of management 15 annually establish our pay price based on market 16 performance and our own ability to manage the supply and 17 the inventories of organic -- of our organic products. We 18 have some seasonal adjustments and quality premiums but do 19 not as a regular course of business change the pay price 20 month to month, which sets us -- you know, obviously 21 differentiates us from the conventional world.

22 Our primary method of balancing our own milk 23 supply is through a quota system that every member must 24 adhere to, and it allows us to plan throughout the year.

25 CROPP's organic utilization is set at 98%. 26 Selling organic milk as a non- -- as a non-organic is our 27 last option, and we take every effort to avoid. It is a 28 losing proposition to sell our organic product in the



1 conventional market.

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.

8 We engaged our membership for over a period of 9 several months to come up with a supply management program 10 to help ensure that we don't have an oversupply of organic 11 milk.

12 And I quess I would like to just say for a minute 13 that this "none of this is as smart as all of us" is 14 really emblematic of what we're trying to do here today. 15 You know, we're trying to work collaboratively with the 16 USDA to come up with workable solutions together that work 17 best for both the conventional market and the organic 18 market. So I do appreciate the fact that we are able to 19 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 1 2 especially a risk for those of us in the premium dairy categories where we are already seeing some price 3 4 sensitivity, organic consumers stepping away from the organic dairy because of price increases we have been 5 forced to put in because of supply chain inflation; pull 6 7 back on the cooperative asset investment and staffing, a 8 move that would fundamentally limit our ability to bring 9 products to the market; but most likely scenario would be 10 a suppression of farm milk price increase opportunities 11 and perhaps a reality that we may need to lower the pay 12 price to our farmer members to satisfy our obligations to 13 the FMMO.

14 The latter of those I hope will never happen 15 because -- and we definitely don't want to have to 16 consider that in the board room.

17 The biggest risk to the co-op is increased Class I 18 differentials. And I know the Milk Innovation Group is 19 asking in this hearing and examination -- of the 20 examination of the Class I differentials, and that's the 21 right starting point: Do these even make sense anymore as 22 justification to draw milk to service the Class I market? 23 My guess is they don't, but that should definitely be 24 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.



1 Just because you can take a price from our 2 cooperative and our organic dairy farmers because of a 1930 law does not mean that that should be the path or 3 4 it's in the best interest of the industry to undermine the very part of the dairy that over the last ten years has 5 been growing and connecting with our consumers. 6 7 I did sign the letter with some 174 organic dairy farmers urging the USDA to examine in this hearing the 8 9 proposal to exempt organic milk from pooling obligations 10 when farmers are paid above the Class I premiums. Ι continue to believe it should be added to the hearing and 11 12 the response by the USDA why it isn't part of discussion 13 is insufficient. 14 Thank you for the opportunity to testify, and I am 15 open for any clarifying questions. Thank you. 16 Ο. Thank you, Mr. Pierson. Appreciate you joining us 17 today. 18 MS. VULTN: The witness is available for 19 cross-examination. 20 THE COURT: Any questions for this witness other 21 than AMS? 22 Seeing none, Ms. Taylor. 23 MS. TAYLOR: Yes. 24 CROSS-EXAMINATION 25 BY MS. TAYLOR: 26 Thank you for joining us, Mr. Pierson. This is Q. 27 Erin Taylor from AMS, and I appreciate you taking time out 28 of your day to join us.



1 You did mention you are a small business, and I 2 did want to ask a little about risk management, since I'm asking all the producers. And I'm guessing your situation 3 4 is a little different since you are organic based on how you are paid, but I'll still ask the question, if you 5 6 utilize any risk management tools. 7 Α. We are enrolled in DMC, but we don't use any market hedging with our milk. Our risk management is 8 9 mostly built into our participation in Organic Valley. We 10 have a long-term contract and a set pay price for our milk 11 throughout the year. The cooperative is built in part to 12 function as a hedging tool for the farm -- for a farm like 13 me. 14 Ο. Okav. Thank you. 15 You know, in effect, the co-op absorbs much Α. Yeah. 16 of the up-and-down market movement and takes a risk --17 helps to minimize that risk for the dairy farmers. 18 Okay. And you say most of your milk goes to a 0. 19 Class I plant; is that correct? 20 Α. I believe so, yes. 21 And how far does your milk go to make it to that Q. 22 plant? 23 Well, the processing for Class I is generally done Α. 24 at Portland, and like I mentioned earlier, I'm about 25 30 miles from Portland. 26 Q. And do you have to pay the haul on that load or 27 that's accounted for in the contract price you have 28 with --



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
6 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.

11

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



1	program.				
2	Q. Okay. At the bottom you mention that most of the				
3	milk goes to fluid, then a smaller portion is used for				
4	powder, butter, and yogurt.				
5	Is that organic butter, powder, and yogurt?				
6	A. Yes, all.				
7	Q. It is?				
8	A. Yeah.				
9	Q. Okay. But so the				
10	A. That's what contributes to our 98% organic				
11	utilization.				
12	Q. Okay. Okay. You talked about you mentioned				
13	that the way Organic Valley and CROPP balances supply is				
14	through a quota system.				
15	Is that for the co-op as a whole or just in your				
16	area?				
17	A. The co-op as a whole. And, you know, different				
18	areas can be I would you know, I would be you				
19	know, can be approved for more production based on				
20	processing capabilities and local demand. But the whole				
21	co-op is under it, yes.				
22	Q. Okay. So then do you think there's a lack of				
23	organic milk in the market right now, on the raw milk side				
24	since you you have instituted some supply management				
25	system, or not?				
26	A. I would say I don't think that there is a lack				
27	of I think we're fairly balanced, in my opinion, across				
28	the country, reasonably well balanced right now, in				

organic supply. To be honest with you, I think we're very 1 2 concerned about the -- if the economy is going to go into a deep recession, what that would do to premium products, 3 4 including organic. So far it hasn't been -- we haven't seen a serious decline in demand, but there definitely has 5 6 been a softening of demand because of price increases that 7 we have had to employ. But I would say we're reasonably 8 balanced.

9 Q. Okay. And then when you talk about the 2% going 10 into non-organic, since 98% is the goal, is the 2% -- what 11 drives that, maybe lack of demand or lack of organic 12 processing capacity?

13 I would say most of it is lack of the ability to Α. 14 capture the product in line loss. There would be -- I 15 don't think it's lack of demand. Lack -- if it was lack 16 of demand, it would be significantly higher than 2%, I 17 believe. I think that when you go into a plant -- because 18 we use co-producing plants across the country -- Organic 19 Valley employs about 60 or 70% co-processors across the 20 country, and there is going to be some efficiency loss 21 in -- when you do process, because typically what happens, 22 of course, is you will have to process the organic milk 23 first and then they'll sanitize their systems and process 24 the organic milk first, and then they will process the 25 conventional milk after that. And there will be some 26 typically line loss that we -- that we see.

27

Q. Okay. And you say --

28

A. But I don't believe it is demand.



1 0. Okay. And you say the goal is 98%. But can you 2 speak to what -- what is maybe the average? Oh, I -- okay. Maybe I -- maybe I slightly 3 Α. 4 misspoke. Our current -- we currently are at 98%. I would have to say we would happen to hit a range between 5 95 and 98 would probably be realistic. Things happen, 6 7 that sometimes you do need to be forced to sell milk, you 8 know, other than organic. Say, for instance, your 9 processing plant can't handle your milk at that point in 10 time, things are out of your control. But, like I said, we are -- this is something the Board of Directors 11 12 monitors very closely because it has a direct impact on 13 our bottom line, and we are at 98% right now. 14 And when the processing plant can't handle your 0. 15 volume, what happens to that milk? 16 Well, I would imagine that -- well, actually, I Α. 17 can't really speak to that because I don't -- I don't 18 really get down that far into the weeds of what -- where 19 the milk goes. But typically we would try to find an 20 alternative processor, and it could be organic -- it could 21 be a conventional market or it could be another organic 22 market, too, that's available. But that's really not part 23 of what I get involved with. 24 0. Okay. Thank you. 25 Α. Sure. Thank you. MS. TAYLOR: That's it from AMS. 26 27 Thank you, your Honor. 28 THE COURT: Anyone else? Okay.

TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 MS. VULIN: Thank you for joining us, Mr. Pierson. 2 And do I need to move to admit Exhibit 206? THE COURT: That's what we have been doing. 3 4 Any objection to Exhibit 206 coming into the record? 5 Seeing none, Exhibit 206, this witness statement, 6 7 is made a part of the record in this proceeding. 8 (Thereafter, Exhibit Number 206 was received into evidence.) 9 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. I don't think your video is on, but that's okay if 20 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. 28 111



TRANSCRIPT OF PROCEEDINGS

September 15, 2023

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 NEIL HOFF, 2 Being first duly sworn, was examined and testified as follows: 3 THE COURT: Your witness. 4 5 DIRECT EXAMINATION BY MR. PROWANT: 6 7 0. Good afternoon, Mr. Hoff. I'm Bradley Prowant, one of the attorneys representing National Milk. 8 9 If you could go ahead and please state and spell your name and provide us with a business address. 10 Sure. I'm Neil Hoff, N-E-I-L, H-O-F-F. And my 11 Α. 12 address is 2205 Hoff Road, Windthorst, Texas. 13 0. Thank you. 14 Mr. Hoff, did you prepare a written statement for 15 today? 16 Α. T have. 17 Ο. And is that the document labeled NMPF Exhibit 74? 18 Α. Yes. 19 All right. 0. 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.) BY MR. PROWANT: 26 27 Ο. Mr. Hoff, could you go ahead and please read your 28 statement for us.



	MATIONAL FEDERAL MILK MARKETING ORDER FRICING FORMOLA MEARING				
1	A. Yes. And thank you, your Honor, for allowing me				
2	to do this virtually. Like the previous presenter said,				
3	it's pretty nice to stay on the farm and be able to do the				
4	work. So thank you for allowing me to do it in this				
5	virtually like this.				
6	THE COURT: We're all very pleased to have you				
7	here, sir.				
8	THE WITNESS: Thank you very much.				
9	Hello, my name is Neil Hoff, and I am a dairy				
10	farmer from Windthorst, Texas. Today I am testifying on				
11	behalf of the National Milk Producers Federation (NMPF)				
12	and my dairy cooperative, Dairy Farmers of America (DFA),				
13	in support of the NMPF proposals. Thank you for giving me				
14	the opportunity to express my thoughts on milk order				
15	modernization.				
16	I am a fourth-generation dairy farmer, working the				
17	same land as my great-grandfather did back in the late				
18	1800s. Two of my grandsons currently help me on the farm.				
19	They are the sixth generation milking cows on this farm.				
20	In our industry, all farms strive to be				
21	sustainable but the term sustainability remains hard to				
22	uniformly define. At my farm, as each generation hands				
23	off to the next, we make sure that the farm and the cows				
24	are in a better place than when they took over. We make				
25	sure the farm is improved with each generation. That, to				
26	me, should be the definition of what sustainability is all				
27	about.				
28	I currently milk about 100 cows, half Holstein and				



1 half Jerseys. This is about the same number of cows that 2 I milked 20 years ago. One of the reasons I have not 3 grown over the years has been due to me being away from 4 the farm because of my expansive involvement in the 5 leadership of our industry.

On the dairy marketing side, I was on the original 6 7 Board of DFA when it was formed back in 1998, and still 8 serve today on its corporate Board of Directors. On the 9 policy side, I currently sit on the NMPF Board of 10 Directors, and on the advertising and promotion side, I 11 have served on the Dairy Management, Inc. (DMI) Board of 12 Directors for about 25 years. Additionally, for the last 13 12, I have been honored to have served as Chairman of the 14 United Dairy Industry Association (UDIA), the dues paying 15 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.



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!

7 The NMPF Board of Directors, representing all size 8 farms, from all areas of the country, voted unanimously 9 for the proposal that has been submitted to this hearing, 10 and the 48 members of the DFA Board of Directors 11 representing all size dairies from all across the country 12 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.

20 The more modest changes proposed by NMPF, which 21 they have indicated will still lower farm milk prices by 22 just a little bit about, all else equal, is a troublesome 23 but acceptable change for me. The significant changes 24 proposed by the International Dairy Foods Association and 25 the Wisconsin Cheese Manufacturers Association would be 26 much more detrimental to my milk price and I think should 27 be rejected.

28

My community, Windthorst, is a small, but



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.

9 So, on behalf of my small dairy and my family who 10 operate it, and my community that I love, I ask you all to 11 support the NMPF proposals that have been already 12 submitted at this hearing.

13 Now, I understand that for a fair hearing all 14 interests should be heard. But at the end of the day the 15 recommended decision by USDA will be a producer program, 16 voted on by producers only! I ask that you listen to the 17 producers and seriously consider the NMPF proposals 18 submitted at this hearing. I really do think that these 19 proposals will give my small farm a fighting chance going 20 forward.

21 So let me conclude, my dairy, my family, and my 22 community are asking for your help today.

Thank you, and I will be available for anyquestions.

25 BY MR. PROWANT:

28

26 Q. Thank you, Mr. Hoff. Just a couple quick 27 questions that are being asked of all witnesses.

A small business for a dairy farmer is defined as



1 one that has \$3.75 million in gross receipts on a farm 2 wide basis. Would you meet that definition? 3 I'm definitely under that amount. 4 Α. All right. And then the other question that's 5 Ο. 6 being asked of all of our producers is whether or not they 7 use any sort of risk management tools. Do you use any sort of risk management tools on 8 9 your farm? 10 Α. The risk management that I currently use is Yeah. 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 Ο. 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 Ο. 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 27 Bureau member? 28 I am a Texas Farm Bureau member, proudly, for a Α.

1 number of years.

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?

7 Α. Yeah. My farm, like many small farms, we faced a 8 lot of disruptions, not only from the markets and from 9 what happens out there that we really don't have a lot of 10 control over, but even some things like weather and feed 11 prices and hauling and all of these things that years ago, 12 I guess were big issues, but it didn't seem like it at the 13 time, but today all of a sudden are big ticket financial 14 So that has caused some trouble on the farm. issues. 15 But -- but other than that, through the programs, my co-op 16 has done a pretty job of taking care of those things for 17 me, and I rely heavily upon them to take care of most of 18 the regulatory and the -- and the environmental stuff that 19 I have to do -- have to -- have to look forward to. MR. MUNCH: Thank you, Neil. That's all I had. 20 21 THE COURT: Anyone else other than AMS? 22 Seeing no one, Ms. Taylor. 23 CROSS-EXAMINATION 24 BY MS. TAYLOR: 25 Ο. Good afternoon. Hi. 26 Α. 27 0. Thank you for joining us virtually to testify

28 today.



A. Yes.

1

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.

5 Since you are a co-op producer, can you talk a 6 little bit about how the current Make Allowance levels are 7 impacting you -- are impacting your cooperative since you 8 serve on the DFA board and you as a producer?

9 A. Yeah, I -- I testified this morning on the total
10 package. I hate to break down into individual deals, but
11 I do know that even small increase in Make Allowances will
12 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.

26 So I know Make Allowances, I haven't gotten deep, 27 but we have staff, paid staff, that have gotten real deep 28 into that in this testimony. So at this time, if it is



1 okay, I would rather not get real deep into that. 2 0. It sure is, and I don't blame you, frankly so. I did have a question, you mentioned hauling. How 3 4 far do you -- does your milk have to go to find a home? I -- I testified that I was north of the 5 Α. Yeah. I'm 130 miles north of the Dallas area. 6 Dallas area. 7 That is our primary market. So it -- hauling is a large 8 part of my expenses going forward. At our co-op level we do have what we call farm-to-market hauling that is 9 10 individual to my dairy based on size and how far I am from the market. And then everything above that is spread like 11 12 peanut butter and called inter-market hauling. So it 13 works out pretty well, but it is still a large expense for 14 me would be the hauling, being 130 miles from my primary 15 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?

28

A. Oh, without a doubt costs have increased. Diesel



1 has gone up. The cost of equipment has gone up. And 2 without a doubt hauling has increased. Our co-op does a nice job of trying to keep it at the lowest level. 3 But, 4 again, as you say, that money has to come from somewhere, and I think where that money has to come from is the dairy 5 farmers. So -- so we do -- hauling is a major expense, 6 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, 28 and right now I'm here to swear you in. Please raise your



1 right hand. 2 SIETSE TOLLENAAR, Being first duly sworn, was examined and 3 testified as follows: 4 THE COURT: Your witness. 5 DIRECT EXAMINATION 6 7 BY MS. CLIPPINGER: Good morning, Mr. Tollenaar. And I say morning --8 0. 9 Good morning. Α. -- because I know he's on the Pacific time right 10 0. 11 now. 12 Would you please and state and spell your name for 13 the record? 14 Sietse Tollenaar, S-I-E-T-S-E, and the last name Α. 15 is T-O-L-L-E-N-A-A-R. 16 Thank you. Q. 17 And would you please provide your business address 18 for the record? 19 Α. 3355 Virginia Road, Wheatland, W-H-E-A-T-L-A-N-D, California, 95692. 20 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 Α. 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.

September 15, 2023

TRANSCRIPT OF PROCEEDINGS NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING (Thereafter, Exhibit Number 208 was marked 1 2 for identification.) MS. CLIPPINGER: Thank you very much. 3 BY MS. CLIPPINGER: 4 And then, Mr. Tollenaar, would you please read 5 0. your statement for the record? 6 7 Α. I sure will. Thank you. My name is Sietse Tollenaar, and for over 28 years 8 9 it has been my joy to be part of the dairy industry. In 10 1992, my wife and I left my parents' dairy to work for the Fred De Boer Dairy in Southern California. In 1995, we 11 12 started Tollcrest Dairy in Wheatland, California, just 13 north of Sacramento. 14 I serve on the Western Area Council of Dairy 15 Farmers of America, Milk Producers Council, California 16 Dairy Research Foundation, Council on Dairy Cattle 17 Breeding Producer Advisory Committee and treasurer for our 18 church board. 19 In June of this year, our youngest son and his 20 family moved back to Wheatland, and we are beginning the 21 process of bringing them into ownership. We are thrilled 22 to bring the second generation to our dairy farm! 23 I am convinced this is an exciting time for our 24 industry, filled with opportunity and possibility. By 25 adopting NMPF's proposals, you ensure the continued 26 support and growth of our nation's dairy economy. 27 I appear today in support of the National Milk 28 Producers Federation proposals to:



NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

(1) Limit the Make Allowance increase to their
 proposed levels;

3 (2) Return the Class I mover to the higher-of;
4 (3) Eliminate the barrel cheese price from the
5 calculation of the Class III protein price;

6 (4) Increase and regularly update the skim
7 component tests used to determine Federal Order skim milk
8 price;

9 (5) Implement their national Class I differential10 and price surface proposal.

11 This has been a trying and challenging year for 12 Tollcrest Dairy. Since June of 2022, the Federal Order 51 13 Statistic Uniform Milk Price has declined by over \$9 per 14 hundredweight, which is comparable with the decline in our 15 milk check. Our costs of production have not gone down to 16 the same degree. Feed costs, utility, labor, insurance, 17 equipment maintenance, and other expenses have all greatly 18 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



1 told this change was important to the Class I processing 2 industry to allow them to hedge their Class I milk. I'm not sure how that worked out for them, but I 3 4 know our dairy's blend price has been lower due to the change. This experiment has failed for dairy farmers, and 5 it would benefit farmers to immediately fix the mover and 6 7 return the revenue to my blend price on a monthly basis. I close by repeating my support for the NMPF 8 9 proposals to eliminate barrel prices from the Class III 10 protein price formula and updating of the Class I 11 differential and producer price surface. Others from DFA 12 will be speaking more directly to these issues. Thank you 13 for allowing me to testify today on these issues that are 14 very important to my family and the future success of our 15 dairy business. Thank you. 16 Q. Thank you. 17 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: 22 Ο. Hello there. My name is Danny Munch. I'm with 23 the American Farm Bureau Federation. 24 Is there any chance that you are a California Farm 25 Bureau member? 26 Α. I sure am. 27 Ο. Thank you for that. 28 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
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.

10 And one of the things I -- I love too is that my 11 vendors are my teammates, and so whenever we have -- we 12 have gone through so much disorder with all the COVID 13 things and those type of things, they just -- the amazing 14 teammates that we have and the amazing vendors that we 15 work with, each and every one of them went above and 16 beyond what was necessary to -- to have us continue to 17 move on. And so we're just certainly blessed.

MR. MUNCH: Thank you.

THE COURT: Anyone else other than AMS? AMS.

22 BY MS. TAYLOR:

18

19

20

21

23 Q. Well, good morning there.

A. Good morning.

25 Q. This is Erin --

26 A. Or good afternoon.

Q. I have lost all sense of time at this point, soI'm not sure, just generally.



CROSS-EXAMINATION

1	This is Erin Taylor from AMS.			
2	I'm not sure if I read in your statement, your			
3	operation, how many cows do you milk?			
4	A. We milk a little over 2,000.			
5	Q. Okay. And I'm not sure if you heard our questions			
6	of earlier virtual witnesses today of the small business			
7	definition and whether your farm would meet that?			
8	A. No, it would not.			
9	Q. It would not.			
10	And then another question is do you utilize any			
11	risk management tools?			
12	A. Yes, we do.			
13	Q. Could you elaborate on what you do use?			
14	A. DMC.			
15	Q. Just DMC, not DRP or anything?			
16	A. Yes.			
17	Q. Okay. Thank you.			
18	About how far does your milk go to find a plant?			
19	A. We we have two plants that are most of			
20	our our milk all goes to Class I, and so one of them is			
21	60 miles away and the other one is 75 miles.			
22	Q. Okay. And for those hauls in recent years, have			
23	you seen those costs increase?			
24	A. 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			

1 constantly have -- since the -- like regulatory definition 2 of -- you know, these trucks have to just be updated 3 constantly, and so that -- that makes the equipment cost 4 tremendous -- tremendous equipment costs. And so, yeah, 5 it has gone up tremendously.

6 Ο. And if you would be willing to speak a little bit 7 about -- and I know you spoke well of your DFA staff out 8 there and their ability to market your milk and etcetera. 9 And I just wonder if you could speak a little bit about 10 maybe over the past few years how you have seen kind of what's happened to your milk check. I know you talked 11 12 specifically about one month this year. But there's been 13 discussions at the hearing about the impact of 14 Make Allowances and how that is impacting co-op producers 15 specifically and differently from independent shippers. 16 And I just wondered if you might speak a little bit about 17 how that stuff has impacted you, and since you are on a 18 DFA board out there, maybe there's -- you know, you're 19 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 sometimeswhen 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 --



2

1

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

Well, what we have heard is that different pieces 3 4 of the formulas, not just Make Allowances, need to be changed, and the -- and one of the reasons that we need to 5 reform things is because there -- it's impacting --6 7 various pieces are impacting producer checks, whether 8 that's low Make Allowances, whether that's the new Class I 9 skim formula we use that got changed in 2018, you know, 10 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.

27 So, yes, when we -- when we are looking at 28 different things, the question is always asked, what is



1	that going to cost, the producers that we represent. And			
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.			
28	THE WITNESS: Thank you so much.			



TRANSCRIPT OF PROCEEDINGS September 15, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 MS. TAYLOR: Okay. I think next on the list is 2 Stephanie Alexandre. MS. VULIN: Hi, Ms. Alexandre, can you hear us? 3 4 THE WITNESS: Yes, I can. Good morning. MS. VULIN: Good morning. This is Ashley Vulin 5 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 Please raise your right hand. now. 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 Good afternoon Ms. Alexandre. I know you are not 0. 22 a MIG member, but this is Ashley, and I'm here to help get 23 you started. 24 Hi, Ashley. Α. 25 Hi. So first, could you state and spell your name Ο. 26 for the record, please? 27 Α. Stephanie Alexandre, S-T-E-P-H-A-N-I-E, 28 A-L-E-X-A-N-D-R-E.

TRANSCRIPT OF PROCEEDINGS

September 15, 2023

	NATIONAL F	EDERAL MILK MARKETING ORDER PRICING FORMULA HEARING		
1	Q.	And could you give us your business address for		
2	the record, please?			
3	А.	8371 Lower Lake Road, Crescent City, California,		
4	95531.			
5	Q.	And do you have your statement in front of you?		
6	Α.	I do.		
7	Q.	And it's marked at the top Alexandre-DF, correct?		
8	Α.	Collect.		
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	Q.	Ms. Alexandre, would you like to read your		
16	stateme	nt for us, please?		
17	Α.	Yes. And		
18	Q.	And just a quick reminder to go nice and slow for		
19	the cou	rt reporter.		
20	A.	Okay.		
21		Thank you for providing me the opportunity to		
22	testify	today via Zoom. The past few weeks have been		
23	excepti	onally busy due to forest fires in our area. We		
24	were ou	t 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		
27	earlier	this week.		
28		I grew up in the dairy farming valley of Chino,		

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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.

8 The fifth generation has followed in our 9 footsteps, earning ag degrees at Cal Poly and bringing 10 their knowledge back to our family farm. Since 2005, they 11 have also operated Alexandre Kid's Eggs, a successful 12 pastured-based organic egg business that uses the same 13 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.



1 We're strong proponents of sustainable organic 2 farming practices. In 2001, we were among the first dairies in California to become certified organic. 3 4 Environmental stewardship and nutritional education are central to our management strategy. Together our family 5 operates five grass-based organic dairies in Del Norte and 6 7 Humboldt County, with 4500 crossbred milk cows on 5800 8 acres of irrigated pasture. We also have 2,000 acres of 9 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.

21 In 2016, we purchased the assets of a small 22 creamery in San Leandro to bottle our milk and make 23 yoqurt. We started with four employees, and we're pleased 24 that we're now up to 27 employees at the creamery. Our 25 Alexandre Family Farm branded milks and yogurts are 26 distributed nationally. The creamery operation is under 27 the Small Business Administration employee threshold for 28 small dairy processors.



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.

8 Besides being passionate about nutrient-dense 9 foods in my kitchen, I'm the controller for the Alexandre 10 Family businesses, and my primary role in the business is 11 heading up all financial maters. Before starting the 12 creamery, like many dairy farmers, we didn't know much 13 about the federal milk orders.

14 Today our son Joseph Alexandre handles FMMO 15 matters for the family and our creamery. It's been a 16 tremendous learning experience for me, him, and Blake. We 17 struggle to understand how organic dairy farms and 18 processors fit into the FMMO system. So far this year, 19 we've paid over a quarter of a million dollars into the 20 pool. We don't see any benefit from this for either the 21 farming or the creamery operations. Those pool 22 obligations are resources that leave our business and 23 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


bottling milk is access to farm milk supply and balancing 1 2 the supply to finished goods manufactured. Our consumer products are certified organic plus 100% A2. 3 We can't use conventional pool milk at our creamery. 4 The benefit of a milk supply supported by the pooling formula is not valid 5 when there are no organic raw milk prices tied to pool 6 7 pricing. Organic raw milk producer prices are independent 8 of the pool and are primarily long-term contracts with organic processors and cooperatives. The FMMO system does 9 10 not balance for us because of the extreme loss of selling 11 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.

17 Organic dairy farming requires significant ongoing 18 investments and innovative methods, for example, to improve soil and animal health. These investments are 19 20 directly competing with pool payments to the FMMO. As 21 organic farmers we should not be asked to fund a system 22 that does not support our organic farming operations. The 23 central question of how organic dairy fits in the FMMO 24 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



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 5 6 be more market-centered and encourage the development of 7 new products. Dairy products and specifically organic 8 dairy companies like ours have so much to offer consumers. 9 I love milk and dairy and hope for a future where real 10 dairy fills my neighbors' fridges. Cow's milk provides amazing nutrition, and I'd like more people to choose that 11 12 over plant-juice.

13 The pasture-based, natural grazing lifestyles our 14 cows enjoy helps satisfy people's concern about ethical 15 treatment of the animals that give them food. We are 16 completely transparent on our farm, and we invite everyone 17 to come visit us and our cows and see where their milk 18 comes from. Today we have hundreds of grateful customers 19 who have found our A2 organic products and have shared 20 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.

25

26

Thank you for the opportunity to testify.

Q. Thank you, Ms. Alexandre.

MS. VULIN: The question witness is available forquestioning.



	NATIONAL FEDERAL MILK MARCETING ORDER FRICING FORMULA HEARING
1	MR. MUNCH: Hi, Stephanie. My name is Danny
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.
27	A. Thank you. It brings us more joy than you can
28	ever imagine. We do it for our own personal reasons, the



TRANSCRIPT OF PROCEEDINGS

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1	joy of doing it.
2	Q. Just a couple questions on your operation.
3	On the farm side, you sell your milk to yourself
4	and then three other plants. Do these plants all produce
5	organic product?
6	A. Yes, they do.
7	Q. Okay. And then on your creamery side, do you buy
8	any other farm milk or just bottle your own milk?
9	A. We just bottle our own milk.
10	Q. Okay. And do you know how much of your milk I
11	should I'm going out of order, and I apologize on
12	your farm side, how much of your milk is sold
13	eventually sold as organic product?
14	A. Pretty much 100%.
15	Q. Okay. And you have already answered some of my
16	questions in your statement.
17	And I I think I know the answer to the other
18	question, but I'll ask. On the risk management side of
19	things, do you use utilize any risk management tools to
20	help you?
21	A. We greatly appreciate the Dairy Margin Coverage,
22	but we do not do any insurance or other risk management.
23	Q. Okay. Thank you.
24	A. Okay.
25	Q. And then you ship your milk to those other
26	plants well, my first question is, is your creamery
27	located pretty close to your farm?
28	A. It is not. It's about a seven-hour drive from our

1 farm. 2 0. Seven hours. Okay. Well, for that haul -- I would call that 3 4 definitely a haul -- can you talk about how your hauling costs may or may not have increased over the past few 5 6 years? 7 Α. Yeah. I -- they have definitely increased, as other farmers have talked about. Fuel prices, being based 8 9 in California, we actually own ten of our own trucks, 10 along haul trucks or California hauls, and had to buy new because of the diesel regulations and also labor costs 11 12 have increased considerably in California. So, yes, 13 tremendous cost increase recently. 14 Okay. And your milk that goes to those other 0. 15 employee plants, how long is that haul for you? 16 They are pretty close other than one of our Α. 17 customers, Organic West Milk, that's more of a haul -- a 18 longer haul as well. But the other two, Rumiano Cheese and Humboldt Creamery, are in your communities. 19 20 Ο. Okay. MS. TAYLOR: That's it from AMS. Thank you so 21 22 much. 23 THE WITNESS: Thank you. 24 MS. VULIN: Your Honor, I'd move for the admission 25 of Exhibit 209. 26 THE COURT: Objections? 27 Seeing none, Exhibit 209, this witness' statement, 28 is entered into the formal record of this proceeding.

TRANSCRIPT OF PROCEEDINGS

1 (Thereafter, Exhibit Number 209 was received 2 into evidence.) THE COURT: Thank you, Ms. Alexandre. 3 Really appreciate you testifying for us today. 4 THE WITNESS: Thank you. 5 6 THE COURT: You may stand down from the virtual 7 witness box. MS. TAYLOR: Your Honor, we have four producers 8 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. 28 111



TRANSCRIPT OF PROCEEDINGS

1 NICOLE BARLASS, 2 Being first duly sworn, was examined and testified as follows: 3 THE COURT: Your witness. Or somebody's witness. 4 MS. TAYLOR: I'll take it. 5 6 Good morning -- or afternoon -- Wisconsin, so it 7 is afternoon for you. Can you state and spell your name for the record? 8 9 THE WITNESS: Sure. My name is Nicole, N-I-C-O-L-E, the last name Barlass, B-A-R-L-A-S-S. 10 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. (Thereafter, Exhibit Number 210 was marked 23 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.



1 THE WITNESS: Okay. Perfect. Thank you. 2 My name is Nicole Barlass from Dusty Lane Farms, LLC, in Sheboygan Falls, Wisconsin. We -- my family and I 3 milk 130 cows and farm about 1600 acres, raising corn, 4 soybean, wheat, and hay. We employ four part-time 5 employees in addition to our four family members, on our 6 7 farm, and support other numerous other area businesses.

8 Our family also owns and operates a trucking 9 business that works with several local cooperatives and 10 companies to haul feed, bedding, minerals, and 11 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.

16 In addition to my roles in the family businesses, 17 I'm a member of many organizations, including the Dairy 18 Business Association, Edge Dairy Farmer Cooperative, and 19 Sheboygan County Farm Bureau. I currently serve as the 20 president of our Wisconsin State Fair Dairy Promotion 21 Board. I also sit on the county Farm Bureau's education 22 and promotion committee, and lead sponsorship for our 23 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



1 | agriculture as an agricultural educator.

2 Outside of agriculture, I coach softball. For 3 many years, I worked full-time positions off the farm in 4 both ago education and for several dairy groups here in 5 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.

23 Proposals 16 and 17 submitted by Edge Dairy Farmer 24 Cooperative aim to limit producer price risk exposure by 25 eliminating advanced pricing, one of the most popular 26 causes of negative PPDs.

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



	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	virtually. As I stated, we are a very hands-on farm, so
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
28	have impacted our farm drastically. You know, I just
1	



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.
8	Q. And with that, would you would you characterize
9	depooling and negative PPDs as a form of disorderly
10	marketing?
11	A. Yes.
12	MR. MUNCH: Thank you.
13	THE COURT: Anyone else? Other than AMS?
14	Ms. Taylor.
15	CROSS-EXAMINATION
16	BY MS. TAYLOR:
17	Q. Thanks again for joining us today. I just have a
18	few questions for you.
19	Your statement says you support the Edge
20	Proposals 16 and 17, but I don't think it oh, it does
21	say you're an Edge Dairy Farmer co-op member. I just
22	wanted to double-check that that was clear.
23	A. Yep, we are. Yeah.
24	Q. Okay. And then you talked about the impact of
25	negative PPDs on risk management.
26	Could you talk a little bit about if your farm
27	utilizes risk management tools and what those are?
28	A. Yeah. So like many on the call earlier today
1.4	



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1	or that testified so far, we do use DMC as our primary
2	risk management tool at this time, but have had internal
3	discussions about, you know, other options. I think
4	that's really what allows our farms to be viable right
5	now.
б	Q. Okay. But right now you only use DMC?
7	A. DMC, yes.
8	Q. Have you used others in the past?
9	A. No, primarily DMC.
10	Q. Okay. Thank you.
11	And your milk goes to a cheese plant; is that
12	correct?
13	A. Correct. Yes.
14	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.
17	Q. Okay. You do have a short haul, but I'll ask the
18	same questions I've asked others. Have you seen the cost
19	of that haul increase over recent years?
20	A. Yeah. So, again, contrary to others, we're
21	extremely fortunate that our private cheese plant actually
22	does cover hauling charges. But I know just in talking to
23	other Edge members, I mean, it has been crazy how much
24	hauling charges have increased for people. I think we
25	have seen between 40 to \$0.70 per hundredweight, with some
26	small farms evening seeing \$1 to \$2 per hundredweight
27	increase. So, you know, from a small farm standpoint,
28	that can really make a difference between stay in business



1 and not. 2 MS. TAYLOR: Thank you. I think that's all the 3 questions from AMS. THE COURT: Okay. So the exhibit will be moved 4 into evidence when we have hard copies of it, next week 5 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. MS. TAYLOR: Yep. Next on the list is Christina 12 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 over this proceeding, and my job right now is to swear you 18 19 So if you would kindly raise your right hand. in. 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, Zuiderveen, Z-U-I-D-E-R-V-E-E-N. 28



1 MS. TAYLOR: And can you give us a business 2 address? THE WITNESS: 2763 Manitowoc Road, Suite B, Green 3 4 Bay, Wisconsin, 54311. 5 MS. TAYLOR: Thank you. And I believe you submitted a statement electronically that's marked 6 7 Edge-10; is that correct? 8 THE WITNESS: That's correct. MS. TAYLOR: So if we could hold the next Exhibit 9 Number 211 --10 11 THE COURT: Yes. MS. TAYLOR: -- for that statement. 12 13 THE COURT: Exhibit Edge-10 will be marked Exhibit 211. 14 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. THE WITNESS: Sure. 20 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.

5 I am a managing partner at Black Soil Dairy in 6 Northwest Iowa and Dakota Plains and Mount Hope Dairies in 7 Southeast South Dakota. Across these three locations, we 8 milk 15,000 cows and employ approximately 100 people. My 9 husband and I and our three children live in Iowa and work 10 closely with my brother and his family, who live in South 11 Dakota.

12 The growth of dairy in the I-29 corridor has been 13 fueled by ample land available to provide feed for our 14 livestock, as well as states that have given agricultural 15 businesses fair environmental and regulatory policies. 16 These conditions made us want to start our businesses 17 here, but the supportive communities are a great place to 18 raise our family and are what keep us in the Central Plains. 19

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



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.

8 When I testified two years ago, my family in 9 Michigan, whose milk check is based on a blend of markets, 10 including Class IV, struggled with low milk prices due to government food programs, depooling, and PPDs. 11 Since then, the markets have flipped with negative PPDs 12 13 affecting Class III and positive PPDs within Class IV 14 markets, finally evening out into relatively equal prices 15 for both markets today. These significant differences and 16 market volatilities are one of the reasons we are pushing 17 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



1 the milk price would continue to rise. DRP allows us to 2 protect income for up to 15 months without missing out on 3 the upside.

4 Another positive of the DRP program is that it is 5 fair to all sizes, as there are no program caps. With the size of our farm, we meet the DMC production caps in less 6 7 than a week, and there is not enough liquidity in the 8 market to purchase options to cover all our milk at one 9 Having the ability to estimate our longer-term time. 10 income helps us make better decisions on our farm today so 11 that we can reach our growth goals in the future. Any 12 lapse in the coverage through this program could 13 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

27 BY MR. MUNCH:

28

25

26

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



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 0. 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. 20 Uh-huh. Α. 21 You mentioned you had three farms in Iowa and 0. 22 South Dakota. 23 Α. Correct. 24 Would any of those farms be considered a small Ο. 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 28 income, we are very much a family farm.

Q. Okay. And I'm using this opportunity during this
 hearing to learn new things, and so you said something
 that I didn't know what it means.

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.

12 Q. Okay. So it looks like DRP is your primary risk13 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?

21 It really depends on the opportunities that are Α. 22 out there. We do look about 15 months out. What we have 23 typically purchased based on our needs is about a year 24 But we're not against opportunities further than out. 25 And I would say we hedge 50 to 100% of our milk that. 26 depending on what those options are.

Q. Thanks.

28

27

4

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



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.

9 Q. Okay. And so you talk about your family's
10 experience on negative PPDs. But can you talk about your
11 specific experience on your farms?

12 Α. Sure. So that was sort of in reference to my 13 testimony before this subcommittee two years ago. I used 14 that as an example. At that time, we here in Iowa and 15 South Dakota were -- we were getting a great milk price, 16 partially due to the government food programs from COVID 17 purchasing a lot of cheese, which is the market that we 18 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.

Q. 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



22

1 say it goes to cheese. Do you know if your milk is pooled 2 or not pooled? Our milk will be pooled at the discretion of our 3 Α. 4 That's not a decision I get to make. processors. Right. But do you know if it is pooled or not? 5 Ο. I don't know what this month's pooling numbers 6 Α. 7 are, but they have been known to depool at their 8 discretion. 9 Okay. And for the cheese plant you ship your milk Ο. 10 for, how long is that haul? 11 Α. So they have -- they own three processing plants. 12 The closest one is 30 miles, and the majority of our milk 13 goes there. A few years ago before they had upped the 14 capacity there, and on occasion now when equipment is 15 down, the other two plants are about 180 miles away. 16 Ο. Okay. And over the past few years have you seen 17 your hauling costs increase at all? 18 Α. Yes. 19 And you pay for those hauls; is that right? Ι 0. 20 know we have had a producer that's testified that their 21 proprietary plant pays for that. Which is it in your 22 case? 23 Α. So it's kind of a mix. We get a hauling subsidy, 24 which does not fully cover the cost, but it does cover some of our hauling costs. But the -- I would say the 25 26 percentage that they have covered in the last few years 27 has gone down. 28 Okay. Thank you. You answered my next question 0.



before I asked it. 1 2 MS. TAYLOR: I think that's it from AMS. Thank 3 you so much. 4 THE WITNESS: Yes, thank you. THE COURT: Anything else? 5 We'll -- we've marked Exhibit 211. And I think I 6 7 lost some data just now. And we'll hold that for admission until we have hard copies next week. 8 9 Thank you very much. Appreciate you coming out virtually. You may stand down. 10 11 MS. TAYLOR: Thank you. Your Honor, the next 12 witness is Brian Hemann. THE COURT: Hi, Mr. Hemann. Can you hear me? 13 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 0. 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 Yes. My name is Brian, B-R-I-A-N, Hemann, Α.

	TRANSCRIPT OF PROCEEDINGS September 15, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	H-E-M-A-N-N. My address is 813 8th Street, Suite 300,
2	Wichita Falls, Texas, 76301.
3	Q. Mr. Hemann, did you prepare a written testimony
4	labeled Exhibit LSMP-3?
5	A. Yes, I did.
6	MR. PROWANT: Your Honor, if we could please mark
7	that as Exhibit 212.
8	THE COURT: So marked.
9	(Thereafter, Exhibit Number 212 was marked
10	for identification.)
11	BY MR. PROWANT:
12	Q. Mr. Hemann, could you please read your statement
13	for us?
14	A. Yes.
15	Ladies and gentlemen, my name is Brian Hemann, a
16	lifelong dairy farmer from Kansas. I operate four farms
17	in Southwestern Kansas and the Oklahoma Panhandle. I am
18	president of the Board of Directors of Lone Star Milk
19	Producers, Inc. Lone Star is a member of the National
20	Milk Producers Federation (NMPF). Today, I come before
21	you representing Lone Star Milk Producers, and both Lone
22	Star and I fully support National Milk Producers
23	Federation Proposal Number 13.
24	The proposal aims to address the critical issue
25	surrounding the evolution of the current Class I mover.
26	As an organization deeply invested in the dairy industry,
27	we have witnessed firsthand the detrimental effects of the
28	current Class I mover on our cooperative and the dairy



1 farmers we represent. It is imperative that we bring 2 attention to this matter and advocate for a swift 3 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.

16 My farm risk management strategy is built on the 17 ability to forecast Federal Order Blend Prices and blend 18 price changes. The current formula disrupts blend price 19 forecasting due to the significant increase in the 20 incidence of depooling and hinders my effective hedging 21 against the blend price, causing instability and financial 22 vulnerability for my dairy farms. Other Lone Star members 23 also have experienced the same hedging difficulties and we 24 all have felt the impact of lower Class I prices in our 25 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



1 the situation. The implications of the existing formula, 2 with its inherent flaws and unintended consequences, have 3 had a profound and detrimental impact on dairy farmers and 4 the stability of the industry as a whole.

Therefore, I and Lone Star Milk Producers 5 wholeheartedly support the proposal put forth by National 6 Milk Producers Federation to return to the original 7 8 Class I mover, which is the higher-of Class III and Class IV skim milk formula, as initially adopted in 9 10 Federal Order Reform. The reasons that justified this 11 decision when it was first implemented remain valid in 12 contemporary dairy markets and will continue to hold 13 relevance moving forward.

14 In conclusion, I urge the Secretary to adopt 15 Proposal Number 13. By reinstating the higher-of formula, 16 we can accurately reflect the value of different milk 17 categories, reduce volatility in blend prices, and address 18 disorderly marketing conditions that impact my own farms. 19 The return to the highest mover formula will allow me to 20 execute the risk management strategies that suit my farm 21 operations. This amendment will also restore competitive 22 equity among dairy farmers and regulated handlers while 23 ensuring a fair and stable pricing system as a necessary 24 tool to effectively hedge against market fluctuations and 25 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



1 hardworking individuals it represents. Thank you. 2 Ο. Thank you, Mr. Hemann. Just a few questions for 3 you here. 4 Α. Uh-huh. Your testimony spoke about Proposal 13. 5 0. 6 Do you support all of National Milk's proposals? 7 Α. Yes, I do. Okay. And then my other questions you can 8 Ο. 9 probably foresee. 10 You mentioned that you operate four farms. Do any of those meet the small business definition --11 12 Α. No, they do not. We are all family farms, but 13 they don't meet the definition as described. 14 Okay. And then you mentioned risk management 0. 15 throughout your statement. Could you just elaborate on 16 which risk management strategies you utilize? 17 Α. So currently we, basically, use DRP, and then we 18 use some options strategy against that. 19 Before DRP was available we were using both futures and option callers. But just to our statement, 20 21 when we had -- through COVID and we've increased these 22 spreads, what was happening is we -- let's just say we 23 have used a Class III futures strategy that in all 24 purposes would have guaranteed us a certain price, but 25 when there was depooling taking place, we may have hedged 26 on the Class III market, and then our blend price didn't 27 even include a Class III because it was depooled from 28 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 0. 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 Α. 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 20 Class IV depending on -- on the differences. 21 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. 26 Q. Would you agree that minimizing incentives to 27 depool is a good thing?

A. Yes. I would totally agree.

28

TRANSCRIPT OF PROCEEDINGS

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

1 Ο. Because American Farm Bureau is also strongly in 2 support of NMPF Proposal Number 13, so we thank you for 3 that. 4 MR. MUNCH: Thank you. THE WITNESS: Uh-huh. 5 THE COURT: Mr. Rosenbaum. 6 7 CROSS-EXAMINATION 8 BY MR. ROSENBAUM: This is Steve Rosenbaum for the International 9 Ο. 10 Dairy Foods Association. 11 Did you utilize a combination of Class III and 12 Class IV futures to hedge the risks regarding the Class I 13 mover during the time period starting in 2018 when the 14 Class I mover became the average of those two plus \$0.74? 15 Yes. We would do -- we originally -- that was our Α. 16 first foray into that, and so our initial interpretation 17 that it would make it easy to do 50% and 50%. But because 18 of depooling and then, you know, as we all know went 19 through COVID where there was -- there was unintended 20 consequences due to the government intervention, it turned 21 out that you could have 50% of your milk hedged on a 22 market that -- that did not collect from that Class III or 23 Class -- since the Class III market. I mean, it's --24 luckily our banks didn't do it, but if they ever looked 25 into it, we actually were -- had hedges on that weren't a 26 hedge, so it turned into a speculative position. 27 0. And that's because of the depooling you are 28 describing or --



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1 Α. Yes, sir. 2 0. Okay. And -- okay. And who do --3 4 Basically more to calculate if you are going to Α. have a class -- how much -- what percent of your milk is 5 Class III and Class IV. 6 7 0. All right. And who -- who are you selling to? 8 Was it --9 We market our milk through the Lone Star Milk Α. 10 Cooperative. And who were -- I mean, were they the -- were they 11 Ο. 12 the handler who was deciding whether to pool or depool? 13 Α. No. 14 Ο. Okay. 15 Α. It was our customers. 16 Okay. And were they -- were they co-ops Ο. 17 themselves or --18 Α. No. Different -- different -- different Class III 19 plants and stuff. And so we even -- even within the 20 Federal Orders, so -- as you know, so within the Federal 21 Order system, if a Class III plant or a Class IV plant 22 decide to depool, that's no longer the pooling price, so 23 it changes our pool price. 24 Ο. Okay. All right. But were you protecting the --25 and to the extent you were trying to protect the Class I 26 components, you were effectively doing that, and it was 27 the depooling that was hitting you; is that what was going 28 on?



28	A. Sometimes it goes to the Class I market.
27	Q. Okay. Do you know where your milk typically goes?
26	directs it. Certain times it can but
25	A. No. It goes to the it goes wherever Lone Star
24	to a proprietary plant?
23	know but I think I just picked up that your milk goes
22	Q. I know you are a member of Lone Star. Do you
21	A. Thank you.
20	testify virtually today.
19	Q. Good afternoon. Thank you for joining us to
18	BY MS. TAYLOR:
17	CROSS-EXAMINATION
16	AMS.
15	THE COURT: Anyone else?
14	THE WITNESS: Thank you.
13	MR. ROSENBAUM: That's all I have. Thank you.
12	Q. Okay.
11	involved in that.
10	A. I was not directly involved. Our co-op was
9	from higher-of to the average?
8	decision-making by National Milk to support the change
7	Q. Right. Okay. Were you involved in the
6	depool, or the higher-of that's not.
5	greater different or more incentive, possibly, to
4	Class IV was in there. So the Class I component allows a
3	percentage of whether class of what Class III and
2	depend on our blend price. So by effect, it changes the
1	A. Yes. I I mean our total I guess would just

1 Sometimes it goes to our -- our Class IV or powder plant 2 in Texas. And sometimes it goes to a Class III plant in Kansas, and then various other places. 3 4 Okay. Thank you. Ο. And so what would you say your average haul is to 5 6 get your milk to one of those plants, or a range --7 Α. Depending on -- oh, excuse me. Well, actually, some days it can be just as few as 8 9 12 miles, and sometimes it can be up to 500 miles. So we 10 service different plants, and that is just based on 11 logistics of where milk needs to go. 12 0. And have you seen your cost of hauling that milk 13 increase over the past few years? 14 That has affected our pay price, especially Yes. Α. 15 servicing the Class I plants, because if we service plants 16 that are further away, that has exponentially increased 17 over the last few years. 18 And is the Class I plant your milk goes to one of 0. 19 those further away locations? 20 Α. Yes. 21 And I had similar questions to Ο. Okay. 22 Mr. Rosenbaum on the -- on page 2 talking about how 23 depooling impacts your risk management strategy, and I 24 just want to make sure I'm clear. So you could forecast better when it was the 25 26 higher-of, because there was less depooling; is that 27 accurate? 28 Yes. And -- and so by that point, if you are Α.



1	getting the higher-of, if you hedge if you hedged say
2	Class III, you know you are at least going to collect
3	Class III equivalent or better. So if Class IV becomes
4	the higher-of, you are going to get a better pay price, so
5	it is not going to negatively affect your your net
6	difference on with your hedges included.
7	Q. Okay. Okay.
8	A. Or depooling so I guess to better explain, just
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
21	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.
28	THE WITNESS: Thank you.



1 MS. TAYLOR: Okay. It looks like the last 2 producer we have for today is Paul Cornette. And we'll bring Paul to the virtual stage. 3 4 Mr. Cornette, you can hear us? THE WITNESS: I can. Thanks. 5 6 MS. TAYLOR: We can hear you. 7 Your Honor. THE COURT: I'm Channing Strother. I'm the 8 9 presiding judge at this proceeding. I'm here right now to swear you in. So if you would kindly raise your right 10 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

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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

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7

(Thereafter, Exhibit Number 213 was marked for identification.)

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. Ιt 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, noise. 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 20 and operate Cornette Dairy in Luxemburg, Wisconsin. Our 21 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 25 family since the late 1800s. And we're very proud of 26 that.

27 We currently milk about 425 cows with six Lely 28 In 2017, we built a new freestall barn and Robots.



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



1 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.

5 I use DMC and DRP as price protection tools. On a 6 farm my size, the 5-million-pound tier in DMC is very 7 helpful. The high coverage level there is able to cover 8 about 40% of our production for a relatively good value. 9 And I'd consider that to be the cornerstone of my hedging 10 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.

16 To truly protect a dairy farm's revenue, the time, 17 in my opinion, to enroll in these programs is usually six 18 to 12 months out. That makes consistency in the 19 implementation and funding of these programs critical to 20 avoid costly lapses in coverage, missed buying 21 opportunities, or simply poor purchases that wind up being 22 wasted money. Any changes made to the Federal Order 23 program, I think, must consider the impacts on risk 24 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. 1 Edqe's 2 Proposal Number 16, which implements the Class III Plus pricing mechanism for the Class I skim milk price 3 4 calculation, allows us to use the dairy industry's most traded commodity to set pricing. Edge advocates for this 5 because cheese is the active market in the United States. 6 7 In closing, I'd like to thank USDA and AMS for providing these opportunities for farmers to share our 8 9 voices throughout this hearing, and, again, the added 10 flexibility to provide virtual testimony really saves us 11 time and money and preserves our ability to speak up on 12 issues that are important to us. 13 Thank you again, and I am available for my 14 questions. 15 THE COURT: Any questions other than AMS for this 16 witness? 17 CROSS-EXAMINATION 18 BY MR. MUNCH: 19 Good afternoon, Paul. My name is Danny Munch with 0. 20 the American Farm Bureau Federation. 21 Is there any chance you are a Farm Bureau member? 22 Α. Yeah, our farm's a Farm Bureau member. 23 Well, thank you for that. 0. 24 You talked about depooling and negative PPDs. 25 Would you consider those forms of disorderly marketing in 26 your opinion? 27 Α. Yes. Negative PPDs are the real wild card, and 28 they are hard to account for when you are trying to



1 predict -- or protect the downside in the milk markets, no 2 doubt. 3 Ο. Thank you. And AFBF's proposal is almost identical to Edge's 4 proposal to remove advanced pricing, so we appreciate your 5 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 Ο. Thanks for joining us today to testify virtually. 18 Appreciate you taking the time. 19 Α. You're welcome. You're supporting 16 and 17, and both of those, 20 Ο. 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 Well, I don't have a real intricate working Α. 27 knowledge of 16 and 17. My -- my understanding, at least 28 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.

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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? 8 9 Indirectly, yes. I mean, the -- de- -- like a lot Α. 10 of other witnesses have said today, depooling is sort of out of our control as farmers. But when it winds up 11 12 resulting in a PPD, it's -- a negative PPD, I should say, 13 we just can't account for that in the hedging strategy, at 14 least not using DRP. It is -- yeah. It's -- it just --15 it comes in at the last minute, and if it's -- if it's 16 negative, what you thought may have been an \$18 floor, is 17 only 17 or 17.50, and in a circumstance like that, that 18 can make all the difference.

19 Q. Uh-huh. Considering farm margins are so small as20 it is.

21 A. Yes.

22 Q. Yeah.

23 A. Especially with rising inflation, yeah.

24 Q. I don't know if you indicated. Where does your 25 milk go now?

26 A. To the Agropur plant. It's a cheese plant nearby27 in Luxemburg.

28 Q. So then you have a pretty short haul?



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1 Α. 11 miles. 2 Ο. The shortest haul today, by I think a mile. 11 -- oh, yeah, yeah. I understand you. Yeah. 3 Α. Even with that short of a haul -- do you pay for 4 Ο. the haul, or is that subsidized through your buyer? 5 6 Α. We are on a stop charge system from the dairy 7 plant, so it's not a -- it's not a true cost of trucking, 8 but we do get a charge. That charge went up about a year 9 ago, maybe it was, and it was -- it was a substantial 10 increase above what it was before. But we're fortunate that trucking is not a back breaker for us. 11 12 MS. TAYLOR: That's it today from AMS. Thank you 13 very much. 14 THE COURT: Anyone else have any questions? 15 Okay. With that, we have reserved Exhibit 16 Number 213 for Edge-8, and we'll mark it and move it for 17 introduction into the record when we have hard copies. 18 Thank you so much, Mr. Cornette. I appreciate you 19 coming in here virtually, and we're all grateful to hear 20 from you. 21 THE WITNESS: Thank you. 22 THE COURT: Good day, sir. 23 THE WITNESS: Good day. 24 MS. TAYLOR: Your Honor, if we could -- I think 25 that's it for today. We don't have any farmers left 26 online to testify, and I don't think there's anyone left 27 in the room. But I would like to talk a little bit about 28 who we have on Monday.



1 THE COURT: Should we go off the record for that? MS. TAYLOR: I think it's pretty well set, so we 2 3 can stay on the record. 4 Okay. Go ahead and spell it out for THE COURT: 5 us. MS. TAYLOR: I'm sure someone will tell me if I'm 6 7 incorrect. 8 So on Monday we'll have Mike Brown from IDFA. And then we will move on to the other set of 9 10 proposals on yields that's being offered by Select. Thev have a number of witnesses, and I am not sure the order of 11 those, but I'm sure we'll move into those. 12 13 I have the names: Chris Allen, Harmoni Campbell, 14 Cheslie Stehouwer, Steve Cooper, and Dr. Farkye, I think. 15 And I profusely apologize for mispronouncing anyone's 16 names. Those are the Select witnesses, so I'm not sure 17 the order of those. I do believe all their statements are 18 online for people to read over the weekend. We will have Mr. Munch from American Farm Bureau 19 20 returning on Tuesday to testify, so we will get him on the 21 stand on Tuesday, so we need to all be flexible to allow 22 him to do that. He'll be coming back. 23 As for Mr. Umhoefer, who is our one Wisconsin 24 Cheese Maker witness that was unable to testify this week, 25 he will be returning to testify on September 26th, so he 26 will not be here next week. He'll be here the following 27 week on the 26th, and he would like to testify in the 28 morning, so if we could all just, if appropriately, allow



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1 that to happen. 2 And we also have two USDA exhibits that still need to get on the record. I don't think we'll have a witness 3 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. THE COURT: Very well. Just -- I'm writing things 8 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.) 22 ---000---23 24 25 26 27 28



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17	Certificate No. 11613
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11	FRESNO, CALIFORNIA
9 10	DATED: October 14, 2023
8 9	at the time and place heretofore stated.
7	full, true and correct statement of the proceedings held
6	true and correct transcript of my shorthand notes, and a
5	hereby certify that the foregoing pages comprise a full,
4	I, MYRA A. PISH, Certified Shorthand Reporter, do
3	
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1	STATE OF CALIFORNIA ) ) ss
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