

MMB Testimony
~ September 15, 2021 ~

Good morning, I'm Jim Davenport. My wife, Karen and I have a 64 milking cow dairy in Ancramdale, NY. The farm is about two hours north of NYC and 1 ½ miles west of the New England border. We are members of the AgriMark Dairy Cooperative and one of nine farmer owners of our Fluid and Class II processing company called Hudson Valley Fresh. We own our plant, located in Kingston, NY, which is a pooled plant in Federal Order One. We have about 300 direct store delivery customers in the Hudson Valley and many more customers in the NYC metro area and Long Island served by our distributors. We supply all of the dairy products used by the United States Military Academy at West Point.

I would like to thank Senator Gillibrand for her support of the largest agricultural sector in New York State and its dairy farmers. We appreciate her work to make the DMC more responsive to the needs of New York dairy farmers. On our dairy, where we feed a high level of homegrown forage and not much purchased grains, these insurance payments have helped immensely. During the most extreme Covid related market upsets, the CFAP direct payments kept many dairy farmers solvent and we are grateful for that support.

We, in the dairy business, have felt multiple headwinds over the past several years. Thanks to misinformation on social media and online, consumers are turning away from dairy to nutritionally inferior, often less sustainable substitutes. This has hurt our fluid milk sales and nourishment of consumers, particularly children whose development depends on the naturally produced, metabolizable nutrients that real milk provides.

Unfortunately for us dairy farmers and fortunately for the consumers of dairy products, we are really good at what we do. This is a result of applied research from our land grant universities and Cooperative Extension Educators who help bring progressive, efficient and timely information to farmers.

The Covid Pandemic and its Effects on the Dairy Food Chain

As both a dairy farmer and processor, I have had a first hand view of its effects on the dairy food chain, the Federal Order System and classified milk pricing as well as the value of belonging to a Cooperative. As a member of an American industry that can compete globally in the export market, I feel I should point out the current Covid induced problems in our sector. The Covid Pandemic exposed the weak links in the food chain, probably none so much as in the fluid milk supply chain. As

we all know, Class I fluid milk is the highest valued of all the classes of dairy products. It is the most perishable and must spend the least amount of time between the cow and the consumer.

We, the AgriMark members of Hudson Valley Fresh, are actually customers of our own cooperative. We receive our milk checks without fail on the 5th and 20th of each month from AgriMark for our preceding months production. By the 20th, AgriMark has received the final pay price from the Federal Order 1 market administrator and can pay based on all of the price information the Order has received. This includes what we report from our Federal Order 1 pool plant in Hudson Valley Fresh Kingston. Twice a month Hudson Valley Fresh sends a check to AgriMark paying the Class 1 price. Monthly we send a check to the Federal Order to pay for the services they provide us. The reason for this seemingly nonsensical scenario is simple. We are currently processing milk four times per week. We get orders in for a processing run and the idea is to take in only the raw milk we need for that day. Any milk our nine farms produce in excess of that day, AgriMark finds another processing plant to use it. During the extreme disruption of Covid we had one distributor in NYC go from taking three full tractor-trailer loads of crates of milk per week to ZERO loads on March 16, 2020. All of this milk went back into the AgriMark system. This saved the Hudson Valley Fresh farmers from ruin and shouted out the value of paying the highest class price for our own milk. It did however create a problem for AgriMark. At the same time all of the other fluid processor customers were doing the same thing and AgriMark, in spite of running our Butter/Powder (Class IV) plant at greater than 100% capacity and all of our Cabot and McCadam cheese plants at the same level, we were losing huge amounts of money paying for surplus milk that had no value. AgriMark had to establish a Covid base plan that required all producers ship less milk. On our farm, rather than upsetting the cows, who were clicking along just fine, we made about 35,000 pounds (about 4,000 gallons) of high quality fertilizer. We actually pumped it into our manure storage tank! A vast majority of AgriMark farmers understood that this was the best course of action our Co-op could take as we could see no future without AgriMark marketing our milk. One other benefit of being Class 1 customers of our own Co-op is that AgriMark handles all compliance with phytosanitary and other regulations that raw milk must meet. Add in the fact that there are premiums to members for high quality milk and a Quality Producer Recognition Program that we use to help market our Hudson Valley Fresh Brand; belonging to AgriMark is a “no-brainer”!

The Federal Order System

As a Federal Order producer since 1986, I have a decent idea of how the system works. There were 249,190 dairy farms when we began with an average of 43 cows per herd. At the end of 2020, there were 31,657 licensed dairy farms with an average of 300 cows per herd. In 1986 United States dairy farms produced about 145 billion pounds of milk. In 2020, we produced 223 billion pounds of milk. In

1986 we were a larger than average sized herd. Today, the average herd is about five times larger than ours. This points out the fact that smaller herds are disappearing. Due to economies of scale, labor efficiency and a host of other factors, large farms are more readily able to keep their cost of production at or below the price of milk. On our small dairy farm, we rarely have the “pay price” for our milk, exceed our cost of production.

In the past when there was less consolidation in the fluid processing business and many smaller fluid plants, the producer had many options available. Some chose to be independent producers, some became Co-op members that sold Class 1 milk to processors. Some processors would secure the majority of their milk supply from independent producers and balance their needs with Class 1 milk from Co-ops. Prior to 1980, the three Federal Orders that were merged to become the Northeast Order had over half of the producer milk used in Class I. In the 30 years from 1980 to 2010, Class I utilization slowly dropped from the upper to lower 40% range. In the 10 years since then it has plummeted to through the 30% range, standing in 2020 at barely over 30%. One of the valuable services that a multi-product processing cooperative like Agri-Mark brings to its members, and the market in general, is balancing the variable demands of Class I processors versus the supply of milk. The AgriMark Butter/Powder plant in West Springfield, MA was built to do just that. Sometimes, during periods of excess milk it ran at full capacity. During times when the milk supply was tight relative to the demand from Agri-Mark customers, it didn't produce enough product to cover its cost of operation. There was a protracted period of low volume into the West Springfield plant that we even considered closing it. The farmer members of AgriMark shouldered these losses as we knew how important the plant had been in times of need and how important it was to ALL the Northeast dairy producers to have it there in times of surplus.

During this period of time, the Federal Order system ensured that producers received at least the Federal Order prices and were paid on time and in full by their handlers. The Blend Price the farmer received was always calculated by all the prices obtained through reporting to the Federal Order 1 Market Administrator's office by the plants in the order. A profusion of data is collected to determine these prices. Each pool plant in the order pays a service fee to the market administrator to cover the cost of this work. The Covid pandemic exposed the weaknesses of the price discovery mechanism. The current pricing system for fluid milk from the 2018 Farm Bill was agreed to by producers and fluid processors. It took the average of Class III and IV prices over a period of years and added \$.74/cwt to arrive at the class I price. If we, the producers, had foreseen such an insane disruption in product prices as the Covid pandemic caused, we would never have agreed to the change. If we had been using the previous higher class III or IV price plus a fixed differential, it would have resulted in less

negative Producer Price Differentials and better prices to farmers. The 750 million dollar hit to us would have been greatly reduced.

I am no economist, but I feel that the current pricing system is helpful to processors because thanks to the maturing cheese and butter/powder futures markets they can hedge to protect against price swings. For the producer, some kind of safety valve against huge product price swings like we saw with Covid could be worked into the calculations. Also, continuing to add data regarding prices over time, while tossing out “outlier” product prices from the equation would be beneficial.

To small farmers like us, and especially those who have no chance to capture more of the consumer with value added retail sales, I feel completely eliminating the Federal Order system would be suicide. There would be chaos in the marketplace. As I indicated before, raw milk must leave the farm’s bulk tank at 38F degrees every 48 hours. It must stay cold until pasteurization, then be brought back down to 38F degrees and be kept cold until used by the consumer in fluid milk sales.

Without a Federal Order system to provide order in the marketplace, farmers could not be sure of a home for their milk or that a fair price for their labor be paid.

Unfortunately, always striving to be more efficient, the dairy producer is often in an oversupply situation. The large processors that are the norm today could secure, at a low price, most of their needs from the largest producers and procure the remainder of the milk needed, for a pittance from desperate producers with no other place to sell their milk. The perishability of milk makes it unique in the world of agricultural commodities. It is critical to have order in the marketplace that the Federal Order System provides.

The Importance of Exports to the United States Dairy Industry

As I have said before, as an industry we are good at what we do. We are one of the few large United States industries that compete on price in the world market. We have the ability to sell our product to countries that need the nutrition in our dairy products for their consumers and the money to pay for it from their exports of manufactured goods to the United States. Trade wars that have shown few positive outcomes have hurt US exporters, particularly agricultural producers. Covid has only exacerbated this situation. Containers travelling overseas are usually filled with US agricultural products, including powdered milk, powdered whey, cheese and butter. During the pandemic, instead of being filled with agricultural products, they are being rushed back from the U.S. empty, to be filled with trade deficit building goods that homebound, financially secure Americans are splurging on. In

order to allow the dairy industry to continue to provide the world with more nutrition free and unhindered trade is essential.

Conclusion

In conclusion, I hope you were able to understand the dairy situation from a small producer and processor - me. I believe the take away from my testimony can be summed up in a few points:

- The product mix in dairy has changed
- The dairy industry gets better at what we do everyday
- Free and unfettered access to trade is critical to the ever more efficient and productive U.S. dairy industry.
- The nutrition dairy provides is essential for people domestically and globally.
- The Federal Order system has done a good job in the orderly marketing of milk for a long time.
- The Federal Order Class I price discovery system needs adjusting to current market conditions and the current product mix.
- Co-ops provide a service to their membership as well as to the entire marketplace.
- And finally, with the consolidation in the fluid milk processing business, small farms depend on the Federal Order System to help them survive.

Thank you for your attention and time, Jim Davenport