UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

In re: Milk in the Northeast and Other Marketing Areas	7 CFR Parts 1000 *et seq*. Docket No. 23-J-0067; AMS-DA-23-0031

CARMEL, INDIANA
JANUARY 2024

TESTIMONY OF ANDERSON ERICKSON DAIRY COMPANY, PART 2 REGARDING NATIONAL HEARING ON FEDERAL MILK MARKETING ORDER PROPOSALS

January 12, 2024

I. BACKGROUND

A. PERSONAL BACKGROUND

My name is Warren Erickson, President and Chief Financial Officer of Anderson Erickson Dairy Company in Des Moines, IA. I have been a full time employee of Anderson Erickson for 26 years and have been exposed to the dairy industry my entire life. I have a Bachelor of Business Administration Degree from The University of Iowa and also have a Master of Arts in Accounting from The University of Iowa. I am a Certified Public Accountant and have 6 years of experience in public accounting with Arthur Andersen LLC. In my role at Anderson Erickson I am intimately involved in milk procurement and the pricing of our end products.

B. COMPANY BACKGROUND

Anderson Erickson Dairy is located 2420 E. University Avenue, Des Moines, IA 50317. All of our products are produced at this location, they include fluid milk of all sizes, ice cream mixes, cottage cheese, yogurt, sour cream and dips as well as some other non-dairy juices and drinks. Anderson Erickson was started in 1930 by my grandfather Iver Erickson. We ship our products all over the State of Iowa and also into Kansas and Missouri around the Kansas City metropolitan area. Our plant is in Central Federal Milk Market Order 32. All of our milk comes from the State of Iowa and it is all direct shipped to our plant from individual farmers. We are a small business as defined by the SBA and a small player in the dairy processing world. In 2022 we purchased around 270 million pounds of milk to produce our various products.

Anderson Erickson Dairy is unique in the dairy world. We are a small family-owned and operated milk processor. We are almost a century old company. Our roots go deep in the State of Iowa and we have a very loyal following among our valued customers. Our 400 employees stake their livelihood on our success and our ability to compete in the marketplace. We have partnerships with Iowa dairies who provide their milk to us and allow us to continue to focus on dairy products and our customer base. We are not a cooperative and do not enjoy any of the benefits those large entities have in either the marketplace or the Federal Milk Marketing Orders.

II. OPPOSITION TO OTHER PROPOSALS

A. Proposals 1 and 2 (NMPF's and National All-Jersey's Milk Component Factor Proposals)

USDA should reject this proposal as it is fundamentally flawed and has no relationship to the reality of the components actually received by Class I plants. I have analyzed the milk received by Anderson Erickson Dairy in 2021 and 2022. This 24-month survey had the following averages: – nonfat solids 9.0401%, protein 3.1967%, and other solids 5.8435%.[1] I cannot support any proposal that moves the component factors to a level above what Anderson Erickson is actually purchasing. I do not understand the rationale behind any proposal that asks anyone to pay for components that they never receive. This is just an egregious tax on Class I milk.

In Order 32 we already pay for the components we receive even though as Class I processors we do not have the ability to adjust any of these components other than butterfat levels. If we purchase milk with more protein or nonfat solids we do not have any method to change those components in our end product nor do we have any method to change pricing to customers for the additional components. I have never had a customer who inquired about the protein or nonfat solids in my product – for fluid milk, these amounts don't make any difference to the buyer. I cannot market or recoup any money based on my milk containing these higher component levels. While higher component levels may provide value in other Classes, they do not in Class I. Any change to the underlying formulas, especially changes that increase the components to levels that we are not currently receiving, is patently unfair and should be rejected by the USDA.

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[1] The average butterfat for this period was 3.8109%. On a skim basis the components were nonfat solids 9.3983%, protein 3.3233%, and other solids 6.0750%.

B. Proposals 13, 16, 17, and 18 (NMPF's, Edge's, and AFBF's Base Class I Skim Milk Price "Mover" Proposals)

Regarding Proposals 13, 17, and 18 Anderson Erickson is against any proposal that eliminates our ability to hedge, our customers' ability to hedge, and adds uncertainty to the Class I price. A step backward by implementing any "higher of" proposal puts all Class I products at a competitive disadvantage to all other products that do have the ability to forward price and/or hedge. There are viable alternatives to any "higher of" proposal that accomplish the same goals for farmers while not losing the ability for pricing certainty. MIG proposal 15 accomplishes this in a very market-oriented orderly fashion.

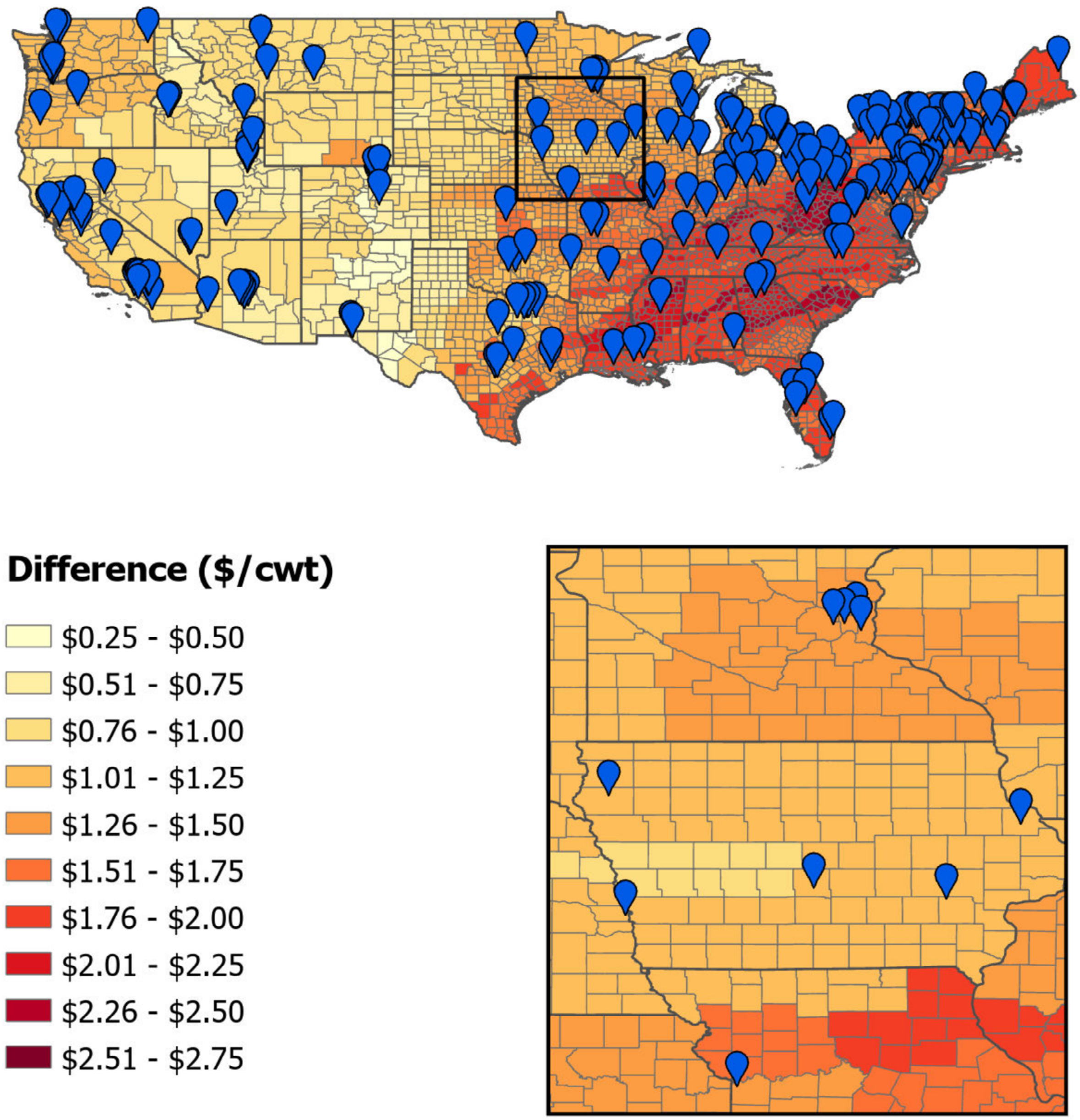
Proposals 16, 17, and 18 eliminating advance pricing for Class I are especially troubling. It would put us BACK into the troubling situation of not knowing the cost of our major ingredient until it has been sold to our customers. I have experience with this situation and it results in a significant amount of market adjustments just to determine pricing for the month you are in. Given the trajectory of fluid milk sales in this country, we should not be adding difficulty and complication to our customers' ability to purchase fluid milk. It is in everyone's best interests to minimize burdens on purchasers of fluid milk. This proposal puts an extra burden on all Class I processors AND their customers.

C. Proposals 19 and 21 (NMPF's Class I Differential and AFBF's Class II Differential)

As discussed in my support for MIG Proposal 20, I do not think Class I Differentials should be arbitrary or in this case arbitrarily changed. Proposal 19 increases the Class I price surface in all areas and no support for any of these changes has been provided. These arbitrary changes result in the authors of these changes determining winners and losers in the marketplace. One specific example for Anderson Erickson is changing the Class I differential by $1.20 in Polk County Iowa while the change in Plymouth County, Iowa (one of our nearest competitors, and a plant owned by cooperatives who put forth Proposal 19) is only $1.05 as shown in Figure 1 and Table 1 below.

Figure 1

Difference ($) NMPF #19 v Current: IA, MN, MO & NE Detail



Source: Hearing Exhibit 441 (MIG 64A), Map 9 plus fluid plant pins.

Table 1
Class I Differential Comparison: Current, USDSS Model, and NMPF Proposal #19

Fluid Plant, City	County	State	Current	Model Minimum	Model Average	NMPF #19	#19 – Current	#19 – Model Avg.
Prairie Farms, Dubuque	Dubuque	IA	$1.75	$3.10	$3.15	$3.00	$1.25	-$0.15
DFA Dean, Le Mars	Plymouth	IA	$1.75	$2.60	$2.65	$2.80	$1.05	$0.15
A-E, Des Moines	Polk	IA	$1.80	$2.70	$2.80	$3.00	$1.20	$0.20
Farmers, Wellman	Washing-ton	IA	$1.80	$2.90	$3.00	$3.00	$1.20	$0.00
Saputo, White Bear Lake	Anoka	MN	$1.70	$2.60	$2.70	$3.00	$1.30	$0.30
DFA Kemps, Minneapolis	Hennepin	MN	$1.70	$2.60	$2.65	$3.00	$1.30	$0.35
DFA Bev, St Paul	Ramsey	MN	$1.70	$2.70	$2.75	$3.00	$1.30	$0.25
PF ESJ, Woodbury	Washing-ton	MN	$1.70	$2.80	$2.85	$3.00	$1.30	$0.15
Hiland, Kansas City	Jackson	MO	$2.00	$3.20	$3.35	$3.35	$1.35	$0.00
Hiland, Omaha	Douglas	NE	$1.85	$2.50	$2.60	$3.00	$1.15	$0.40
Source: Hearing Exhibit 443 (MIG 64C)								

In other words, NMPF has proposed changing the price surface from a situation where Anderson Erickson's price is raised $0.15 relative to its nearest competitor, who just happens to be a member of NMPF. Many have testified that there was a concerted effort to keep Des Moines, Iowa and Omaha, Nebraska on equal footing but that does not address the fact that Anderson Erickson's biggest competition comes from Le Mars, Iowa and Kansas City, Missouri. The influence of ALL of our major competitors on the NMPF proposal without any input from other NMPF nonmembers is troubling in the least. AE has worked diligently to curate its own independent supply of milk. This is in response to specific coops saying it was too costly to ship milk to Des Moines, IA and claiming the area didn't have a sufficient milk supply. This transition took over 10 years. Currently we are served by Iowa dairy farms that ship directly to our plant which in all cases is less than 100 miles away. Asking AE to subsidize coop business models that failed to economically serve our milk supply needs by increasing Class I differentials is patently unfair. The self-serving nature of NMPF's proposal cannot be overlooked, as it undercuts the reliability and integrity of the data they rely upon as a whole. This "canary in a coal mine" example shows that NMPF's proposal must be rejected in full.

I am sure there are many, many examples of this type of self-serving alteration in Proposal 19. In this specific case we purchase milk from the same areas and our products are sold in the same areas. There is no justification for such a difference that will put us in a competitive disadvantage to a main competitor. Shouldn't consumers determine winners and losers?

Proposal 21 would increase the Class II Differential $0.86. Class II is an area where milk processors have had some growth in products. Cottage cheese, sour cream, and to some extent yogurts have increasing popularity with customers. It is typical for many fully regulated Class I distributing plants to have some Class II processing to utilize the extra cream from the Class I operations. That means this increase in the Class II price is unavoidable for us (a plant that also bottles a significant amount of Class I fluid milk) but can be easily avoided by most of our major competitors who can depool their Class II only dedicated plants. This feels like an additional target on Class I operations at the expense of an even field of competition. Saddling these products with additional costs to feed a system that is clearly broken will not help fix the problem.

III. CONCLUSION

We are trying to fix a system from a very different time subject to very different market realities. Class I milk is no longer anywhere near the majority of milk that flows through the US dairy complex. Anderson Erickson recognizes that parts of this system need to be adjusted. Make allowances haven't been touched for decades and are hard coded in the system. But while they should be looked at, those changes should not come at the expense of Class I prices and Class I processors. Saddling Class I with extra costs is going to make our products less competitive and won't benefit the US dairy market. This might seem like a small thing to many, but to Anderson

Erickson, our farmer partners, our employees, and our customers, this is a very large issue. We desire to keep delivering the very best dairy products to the Iowa, Kansas, and Missouri areas we serve, but we are also subject to fundamental economic realities. A healthy Class I market will enhance dairy overall and should be encouraged. I support a healthy system for everyone and continue to have a vested interest in a good outcome for all parties!

DATED this 12th day of January, 2024.

By *_/s/ Warren Erickson_*
Warren Erickson