

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
AUGUST 2023**

**TESTIMONY OF DANONE NORTH AMERICA
REGARDING NATIONAL HEARING ON
FEDERAL MILK MARKETING ORDER PROPOSALS
PART I – SUPPORT FOR PROPOSAL 20**

January 11, 2024

I. BACKGROUND

A. PERSONAL BACKGROUND

Hello, my name is Jay Luikart, and I serve as the Head of Supply Chain for Horizon Organic at Danone North America, PBC (hereinafter “Danone”) working from our Broomfield, CO office. In this capacity, I oversee the Horizon Organic and Wallaby Organic Supply Chain – including Operations Planning, Logistics & Warehousing, R&D, Quality/Food Safety and Animal Welfare, and Manufacturing. Prior to my current role, I have been with Danone since 2016 in various roles in Manufacturing leadership and executive Supply Chain. Prior to Danone, I worked at Treehouse Foods and Nestle in roles throughout manufacturing and operations. Prior to entering the industry, I earned a B.S. in Food Science at University of Wisconsin – Madison and an MBA from Carlson School of Business at University of Minnesota.

Through my career, I have worked in a variety of management roles in manufacturing, business development, co-manufacturing, and supply chain across industries ranging from confectionary, frozen foods, pickles, yogurt, creamers, plant based, and beverages in manufacturing sites across the country and Danone’s corporate office in Colorado. Since 2021, I have been supporting Danone’s Horizon Organic business where I have developed a sound understanding of organic milk supply, a deep respect for our incredible farmer partners and the courageous and hard work that they do, and important relationships with our organic producer partners across the country.

B. COMPANY BACKGROUND

Danone is a purpose-driven company with a portfolio of dairy and plant-based foods and beverages. As one of the world’s largest Certified B Corporations, Danone is committed to the creation of both economic and social value, while nurturing natural ecosystems through sustainable agriculture. With our combined portfolio of beloved, trusted, and pioneering brands in fresh dairy, organic dairy, plant-based, fresh foods, and coffee creamers and beverages, Danone is one of the top food and beverage companies in the United States.

1. Danone North America – Lineage and Products:

We are proud to have over 75 years of producing yogurt in the United States, which has grown to include brands such as Dannon®, Activia®, Light & Fit®, and Oikos®. We produce coffee creamers under the brand International Delight® as well as our Silk® and So Delicious® dairy free creamers. We have a beloved organic business including brands like Horizon® and Wallaby®.

2. Danone North America Direct Footprint:

Danone has over 6,000 employees across the United States and Canada. Our U.S. corporate headquarters are based in White Plains, NY and Broomfield, CO. We also have a research and innovation facility in Louisville, CO. Our U.S. products are made in one of 16 dairy processing plants located in 12 different states. More specifically in the U.S., we have seven Danone plants and nine contract manufacturing plants located across California, Colorado, Florida, Idaho, Indiana, New York, North Carolina, Ohio, Pennsylvania, Texas, Utah, and Virginia.

3. U.S. Supply-chain:

In the U.S., Danone North America works with 500+ producers across 15 different states, which include organic, grassfed, non-GMO, and conventional. Over 96% of our producers are family farms. In 2023, we project to receive approximately 31.4 million cwt cumulative from our producers. We participate in eight federal market areas. We pay pooling into four FMMOs directly (1, 51, 124, and 126). We report into two FMMOs (5 and 6). Finally, we pay our co-packers for their pooling charges in 3 FMMOs (1, 30, 32).

II. SUPPORT FOR MIG PROPOSALS

Danone is a member of the Milk Innovation Group (“MIG”), and we support its proposals at this hearing. I am here today to discuss how the Federal Milk Marketing Order impacts our business, particularly our producers, and to voice our support for Proposal 20..

A. Impacts of FMMOs on Danone and Our Producers.

Danone helped found the Milk Innovation Group to address concerns from our producers in the FMMO system. Organic fluid milk is a different product than traditional fluid milk. For example, USDA recognizes the difference by maintaining a legal definition for organic fluid milk. Second, Danone contractually buys milk that meets this definition and ensures that plants and milk haulers in our supply chain meet this definition as well, which is not necessary for conventional milk. Organic milk also requires a more robust supplier network as the producers of organic milk consist largely of smaller farm operations. Shipping can only be handled by organic certified haulers. If we utilize mixed-use fixed assets through segmentation, the overall efficiency of our operations is reduced.

Not only is the farming process unique to our organic producers, but the payment structure is fundamentally different from conventional payments, too. Most importantly, organic milk producers receive a premium over traditional fluid milk. Moreover, that premium is paid as a single, unified price, not a classified price based on use. So, essentially, classified pricing is irrelevant as to organic milk. The farm gate milk price for organic milk is about \$34 per hundredweight. This is significantly higher than both the FMMO regulated minimum Class I and uniform prices. Because of these differences, Danone must pay into an FMMO system that provides no resources back to our producer partners. Last year, these payments totaled \$13 million, which reduced the amount of capital that could be directed to other more direct ways of supporting our supply chain, business infrastructure, payments to farmer partners, or investments to improve the viability of the business.

Importantly, the FMMO system not only does nothing to support our farmers, but it also sends the wrong signals to the market regarding our operation. Requiring organic handlers, and by extension their farmers, to contribute to the FMMO pools distorts market signals by encouraging farmers to produce more non-organic milk. This problem would be made many magnitudes worse if NMPF's group of proposals are adopted because the spread between manufacturing prices and

Class I prices will increase resulting in even larger pool payments by Danone and others in the organic industry. The diversion of these funds away from our producers not only negatively impacts our ability to use those funds in a way to benefit our supply chain, but it distorts the market and makes Danone North America essentially a subsidizer of producers of milk we do not need and cannot use in our Horizon® and Wallaby® organic branded products.

B. We support Proposal 20.

As a processor of fluid milk Danone does not face challenges meeting our organic fluid milk supply needs through our producer partners. An increase in the FMMO Class I differentials would only increase that \$13 Million paid into the producer settlement funds to the detriment of organic processors and producers alike. Moreover, Proposal 20 recognizes that today there is no need to continue to compensate dairy farmers in the Class I price for maintaining Grade A status. We are unaware of any Grade B organic milk.

C. USDA should be adjusting prices by excluding organic milk from the FMMOs.

Before closing, I want to highlight a proposal developed by MIG that was not included in this hearing that would have provided the best outcome for our producers by excluding organic fluid milk from the FMMO system. By exempting organic fluid milk from FMMOs, USDA could have recognized the fundamental differences in pricing and how the FMMO's pricing provisions impact organic milk and conventional milk. I feel strongly that organic milk should not be included in the FMMO system as it creates a meaningful business expense that further inhibits our ability to market to consumers, drive meaningful and relevant new product innovation, and more effectively compete to grow our business while it creates no benefit as this very antiquated system was developed long before organic milk became a critical, growing, and meaningful part of the US dairy industry.

DATED this 11th day of January, 2024.

By /s/ Jay Luikart
JAY LUIKART