

January 17, 2024

USDA/AMS/Dairy Program  
Order Formulation and Enforcement Division,  
Stop 0225-Room 2530-S,  
1400 Independence Avenue S.W.,  
Washington, DC 20250-0231

Subject: Testimony on proposals seeking to amend 11 Federal milk marketing orders (FMMOs).  
Agency/Docket Numbers: Doc. No. 23-J-0067; AMS-DA-23-0031 and Document Number: 2023-15496

Witness:

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Dear USDA and Judge Clifton,

I appreciate the opportunity to offer testimony on federal milk pricing topics the Department is considering within this hearing.

As I stated earlier, my name is David Hardy and I am a dairy farmer from Mohawk, New York where I farm with my wife Susan and my son Aaron and his wife Sarah.

Collectively we operate a 100-cow certified organic dairy and produce crops on as many as 450 acres which is in hay and pasture. We have farmed at this location for over 30 years and are blessed to have created a livelihood in dairy farming in the state of New York. I'm a first-generation dairy farmer. I grew up outside of Boston Massachusetts. So, for me it's exciting to have the next generation integrating into management and ownership of the farm. This is a goal that most farmers I work with also strive for.

We became certified organic in 1999. We are members of and market our milk through CROPP Cooperative – better known as Organic Valley. Certified organic milk requires adherence to federal standards established by law. Organic milk is strictly segregated from non-organic milk starting at the farm and going all the way to a finished organic product purchased by consumers.

In addition to dairy farming, I was elected to the 7-member CROPP Cooperative board in 2016 and today serve as the board President. Before my board of director role, I was employed as a Regional Pool Manager for the cooperative in the state of New York. I have also served in various other leadership roles for CROPP.

My life's work has been in organic dairy.

I talk with dozens of organic dairy farmers a year and work on a day-to-day basis with cooperative leadership on topic such as: our long-term vision of the cooperative, overall market performance, member concerns including supply and pay price discussions, general cooperative governance as well as industry positioning and some organic and dairy policy matters.

As the board, we often serve as a sounding board for various product launches and marketing campaigns. Ultimately, we are responsible for the evaluation of our co-op's business leadership and ensuring the co-op adheres and excels at our stated mission.

CROPP Cooperative's mission states:

*The purpose of Cooperative Regions of Organic Producer Pools is to create and operate a marketing cooperative that promotes regional farm diversity and economic stability by the means of organic agriculture methods and the sale of certified organic products.*

CROPP Cooperative was established in 1988 and is the largest organic-farmer cooperative in the United States. Today we are made up of over 1,600 organic farmers in 32 states. We are in the process of extending membership to another over 150 farmers over the next couple years as we look to provide more opportunities for small family farmers and to offer premium food to customers and consumers.

While we offer organic products within four other commodities, we are overwhelmingly positioned in organic dairy. Organic dairy represents 95 percent of the cooperative's business. Overall the cooperative generates nearly \$1.2 billion in annual sales. We market branded products as Organic Valley but also sell ingredients and bulk offerings to commercial organic buyers.

With an average herd size under 80 cows, we are a cooperative of small farms. The vast majority of labor on these organic dairies is family members living on the farm and contributing to a local economy.

I checked with the co-op staff and by examining annual milk receipts we estimate that 99.6 percent of the membership would meet the Small Business Administration thresholds (under \$3.75M in average annual receipts) to be considered a small dairy farm.

### **Organic Dairy Farmer – FMMO value and impact**

Just like all in the dairy industry, organic dairy farmers like myself are operating in an extremely competitive landscape. Market swings, variable weather, and the public perception of dairy all impact my farm.

Unlike most dairy, organic dairy at my co-op is unique and places no utility in the pricing scheme established within the FMMO system. I can honestly say the majority of organic farmers I talk to about federal milk pricing have hardly any idea of how it operates and secondly, bluntly ask me.... “well, why would we be part of that type of system, we’re are organic and that’s not how my monthly milk price is determined.”

And they are right.

CROPP Cooperative does not base monthly pay prices on the gyrations of the FMMOs or dairy futures market.

Many farmers come to CROPP Cooperative because:

- they are seeking organic price premiums for their farm milk that are historically substantially higher than conventional milk; and
- our marketing cooperative provides stability in its base organic milk price.

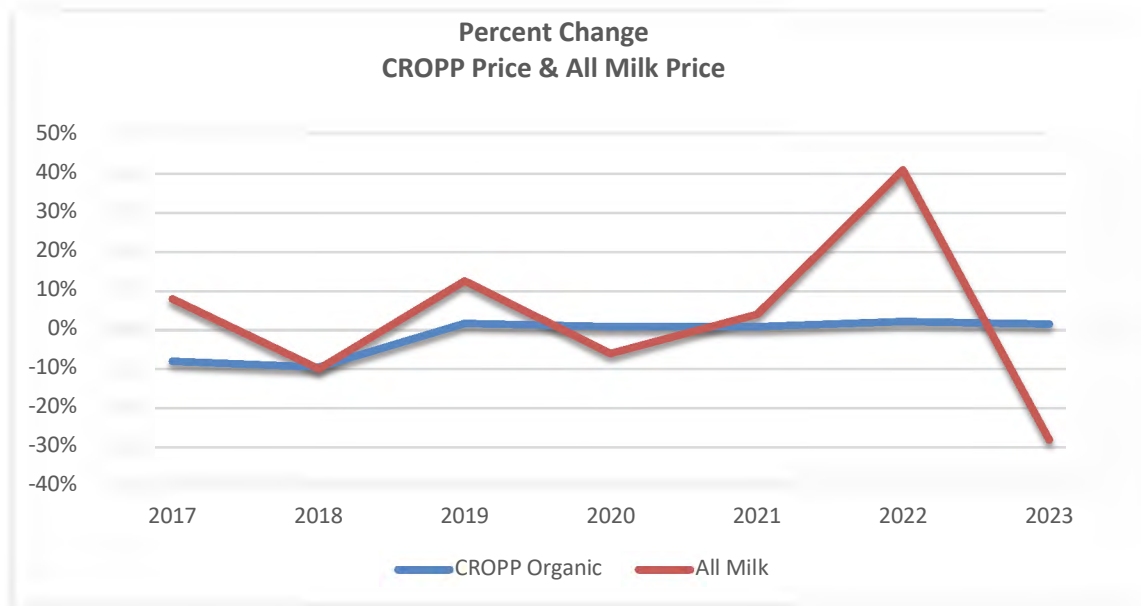
Like most in the dairy industry I am paid on the components of my farm milk but unlike many in dairy my base milk price remains stable throughout the year.

Of course, I receive quality premiums and some seasonal adjustments but over the past 8 years my base milk price has only changed 12 times.

On average that’s only 1.5 changes per year to my base milk price. It is not a monthly or quarterly change where I’m guessing what my milk price will be. In terms of the degree of change, the most recent price change was a \$0.50 per hundredweight increase starting January 1<sup>st</sup>, 2024.

This allows me to plan my farm financials and lessens the volatility that often plagues non-organic dairy farmers. This demonstrates that the cooperative serves in part as a de facto hedging tool. I can make all kinds of decisions and approaches on my input side to lessen costs or maximize milk quality, but I don’t have to worry about the bottom falling out in my milk price.

Please see the graph below that illustrates the organic milk price stability provided by CROPP Cooperative.



At the cooperative we, as the board and management, with member input, annually establish our pay price based on market performance and our own ability to manage supply and inventories of our organic products. Our aim is to provide the greatest returns to our membership and secondly to maintain the long-term viability of the cooperative. To date we've been successful as a collection of dairy farmers and co-op leadership but it's constantly under refinement and change. And we are in it for the long haul.

### **Class I and II Differentials**

I recognize this portion of the hearing is focused on the Class I and to a lesser extent Class II differentials. For organic dairy farmers the differentials are an abstract exercise which does not impact our milk movement or what products we process for the organic marketplace. My organic farm milk is not moved in a manner to respond to signals provided by classified pricing system and the Class I differentials. For me it is also hard to understand how the Class I differentials would still maintain a grade A cost factor when there really are not any farms purposely licensed or shipping grade B milk in the industry.

For me the FMMO hearing proposals must be considered primarily from the point of view of:

**What pressures do changes create for my marketing co-op that I'm an owner of, and how will those pressures manifest and impact my milk price or my co-op's business footing?**

As I understand it, changes to increase the Class I differentials represent the largest risk to my cooperative. Our staff estimates that these proposed changes would cost as much as 30 percent more above our current annual pooling obligations.

As an organic farmer and board member I can share insights on what increased pooling obligations and FMMO costs would mean for Organic Valley. They would fundamentally restrict our ability to return more financial stability to our farmers. We would have to consider:

- Increasing retail consumer and customer organic prices, a non-starter in a high inflationary economy and especially a risk for those of us in the premium dairy categories.
- Requiring a pull back on cooperative asset investments and staffing, a move that would essentially limit our ability to bring product to market.
- Suppressing farmer pay price increase opportunities and perhaps a reality that we may need to reduce our base milk pay price.

The cooperative cannot sustain the risk of these increased costs without significant harm. Even more problematic is that organic dairy farmers and our co-op receive no overall upside benefit for our mandated participation in the FMMO system. As a collection of farmers that voluntarily manage our own supply through a quota system with organic farmer prices well above the regulated minimum blend prices, this system undermines what we hope to offer producers and consumers of organic dairy.

We cannot pretend that all milk is alike, or that all dairy processing is alike, and that the FMMOs should have the same bearing given the differences.

I urge the Department not to increase Class I or II differential and if anything, make adjustments to lessen their impact on fluid and Class II processors.

### **Organic Dairy & Closing**

I do believe USDA certified organic dairy is not treated equitably in the FMMO system. And more fundamental reform to change that is necessary. I know you've all spent months and weeks and maybe even years on the topics in this hearing but fixing the FMMO problems faced by organic farmers and organic dairy companies needs to be addressed.

I've been to Indiana in the past since CROPP Cooperative has 170 dairy farm members in the state, but I never thought I would be here to talk about USDA federal milk pricing. Thank you for the opportunity to share my testimony. I welcome any questions from USDA.