

**United States Department of Agriculture
Before The Secretary of Agriculture**

**In re: [Docket No. 23-J-0067; AMS-DA-23-0031]
Milk in the Northeast and Other Marketing Areas**

Hearing beginning August 23, 2023

**Testimony Presented By:
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Hearing Subject Area: Class I and Class II Differentials

Hello, my name is Joe Brinker, and I am appearing today to support Proposal 19, as submitted by National Milk Producers Federation (NMPF), that updates and modernizes the U.S. Federal Milk Marketing Order pricing surface and Class I differentials throughout the United States. My career in the dairy industry covers over 28 years, working in various roles involving raw milk movement and raw milk sales. I currently hold the title of Director, Milk Marketing & Operations for Dairy Farmers of America's (DFA) Central Area. Currently, DFA has over 1,100 farmer-owners located in its Central Area, producing approximately 575 million pounds per month, with the majority of the milk pooled on the Central Marketing Area and the Upper Midwest Marketing Area. DFA owns and operates 16 dairy manufacturing plants within the Central Area, with 10 facilities receiving raw milk and 5 facilities operating as pool distributing plants. All Central Area milk produced by DFA farmer-owners is picked up and delivered by contract milk hauling companies. My current responsibilities include the efficient movement of farm milk to raw milk customers, including Class I distributing plants located in the Federal Milk Market Orders 30 and 32 geographies.

Today, my testimony is in conjunction with other NMPF proponents of their Class I surface pricing proposal which is Proposal 19. My testimony will focus primarily on the Missouri, Kansas, and Nebraska markets and overall price alignment with Class I plants in and around the Central Federal Milk Marketing Order. My DFA colleagues, and other proponents of the NMPF proposal, will provide supportive testimony on the surrounding regions.

The dairy industry has seen a significant increase in the cost of serving the Class I market over the last 15 years. The number of dairy farms nationally, and within the milk sheds I work with, continues to decline. For many markets, the milk supply has moved further and further away from the customer. While milk must move further, the cost to ship this milk has increased substantially as we have faced increased rates from our haulers.

Since 2005, the number of DFA farms located in the geography supplying the Kansas City (MO), Omaha (NE) and Wichita (KS) Class I markets, has decreased by over 70 percent. The remaining farms are located farther from the Class I plant locations and in more rural areas, increasing the number of miles from farm to plant. As the distance to plant and cost per mile hauled increases, dairy farmers within the region face higher economic strain.

To help reinforce this claim, we surveyed trucking companies providing raw milk hauling services in the Nebraska, Kansas, and Missouri region to quantify increases in their transportation costs. From 2005 to 2022, equipment costs were up 173 percent, licenses and taxes fees were up 71 percent, and labor expenses increased 176 percent. Overall, these increased hauler expenses resulted in a 151 percent rate increase in milk hauling costs.

As referenced in previous testimony, those participating in the NMPF process utilized the University of Wisconsin model as a baseline to help build out the NMPF proposal as referenced by Map 1. For my particular region, Kansas City, MO, located in Jackson County, MO, was determined to be an anchor city. This was due to the Kansas City area being the price announcement zone for the Central Federal Order producer price differential and the base zone for determining producer pool values. NMPF has proposed using \$3.35 per hundredweight for the Class I differential in Jackson County. The model's results valued Jackson County at \$3.20 per hundredweight in the May analysis and \$3.50 per hundredweight in the October analysis. Like many of the NMPF proposed price surface upgrades, it is requesting the average of the two months - \$3.35 per hundredweight – as its value. As referenced in Table 1, this represents an increase of \$1.35 per hundredweight compared to the current differential.

While Class I demand in the Kansas City market has been relatively flat over the last 15 years, local milk production continues to decline, resulting in raw milk traveling farther to supply the Kansas City market. Based on internal DFA reporting and analysis, in the fall of 2015, 92 percent of Class I milk demand was supplied from farms that were located within 150 miles of Kansas City. By the fall of 2022, only 47 percent of the Kansas City Class I demand came from farms within 150 miles.

The Omaha market has also seen a change in market dynamics. In the fall of 2015, 65 percent of Class I milk demand was supplied from farms that were located within 150 miles of Omaha. By the fall of 2022, only 55 percent of the Omaha Class I demand came from farms within 150 miles. The change in the Omaha market demographics is less severe compared to Kansas City, resulting in the proposed Omaha differential increasing \$1.15 per hundredweight vs. \$1.35 hundredweight in Kansas City.

The Wichita market has experienced a similar change in market conditions. In the fall of 2015, 42 percent of Class I milk demand was supplied from farms that were located within 150 miles of Wichita. By the fall of 2022, only 27 percent of the Wichita Class I demand came from farms within 150 miles.

While maintaining current spreads in differentials for these three markets was considered, the differing changes in milk proximity to markets shows a need for uneven differential recommendations. Market conditions justify a differential increase of \$1.35 per hundredweight in Kansas City, \$1.15 per hundredweight in Omaha and \$1.65 per hundredweight in Wichita. Considerations were also made in regard to the recommended differentials in surrounding marketplaces.

With the increased distance of farm milk to processing plants, coupled with higher transportation costs, a differential increase is vital to ensure a reliable Class I milk supply is available to meet consumer demand. As noted, milk must move further and further to the marketplace. These increased costs flow down and to the remaining dairy farmers supplying the region. Thank you for allowing me to testify today in consideration of this Proposal.

Table 1

	Current	Proposed	Difference
Kansas City	\$2.00	\$3.35	\$1.35
Omaha	\$1.85	\$3.00	\$1.15
Wichita	\$2.20	\$3.85	\$1.65

Map 1

NMPF Proposed

Central Area

