

Testimony of Evan Hillan

Thank you for the opportunity to testify before you today. My name is Evan Hillan, I am a fourth-generation dairy farmer who farms in-partnership with my parents in Ladysmith, Wisconsin. We milk 500 Holsteins and raise all our youngstock on-site. We also farm 1,600 acres of alfalfa, corn, winter rye, and winter wheat.

My milk is pooled on the Upper Midwest Federal Milk Marketing Order number 30.

I have served on several national boards including Dairy Management Inc, the National Dairy Board and am currently serving as a director of the Land O'Lakes board. Locally I chair the county's dairy and beef promotions board and am vice chair of the farmer led watershed group. As a member owner of Land O' Lakes I support all five proposals put forth by NMPF. Today, I am testifying today in support of, Proposal 3: Surveyed Commodity Products (elimination of barrel prices from the Class III protein price formula).

As a producer, I support the NMPF proposal to eliminate barrel cheddar cheese from the Class III protein price formula listed in the Notice of Hearing as Proposal Number 3. As Christian Edmiston, Vice President of Procurement at Land O'Lakes stated in his testimony, barrel cheddar is overrepresented in the National Dairy Products Sales Report (NDPSR) compared to how most cheese is sold in the US. Block cheddar is produced more than barrel cheddar, and most mozzarella is priced off of the block cheddar market as well. Additionally, the original intent of including barrel cheddar cheese in the Class III protein formula and adjusting the barrel cheddar price higher by \$0.03 was to increase the volume represented in

NDPSR. However, when the block cheddar price exceeds the barrel cheddar price by more than \$0.03, there are unintended consequences.

One unintended consequence is a lower milk price to producers. As stated by Darin Hanson, Senior Vice President of Supply Chain and Milk Management at Foremost Farms, this has cost producers well over a billion dollars in lost revenue since 2017. When barrel cheddar prices fall well below block cheddar prices, it reduces the Class III price, which decreases the milk checks that farms like mine rely on to run our businesses.

Another unintended consequence is compressed margins for barrel cheddar manufacturers. Often, producers feel the financial impact of these tighter margins either in the form of cooperative owned barrel cheddar plants that do not provide adequate returns, or lower milk prices paid by manufacturers outside FMMO's. As a member owner of Land O'Lakes, I have invested in plants through my cooperative over time, and I understand the need for those investments to provide returns.

Neither of these unintended consequences was apparent until the last several years, when market conditions changed. Removal of barrel cheddar from the Class III protein price calculation would resolve these issues, and for that reason I am supportive of the NMPF Proposal Number 3.

Producer margins have become significantly compressed in the first half of 2023 and may be more compressed in second half of 2023, into 2024. Class III and Class IV prices have averaged \$5.47 and \$6.08 per hundredweight lower thru June

compared to the same six-month period in 2022 that have translated into major decreases in FMMO uniform prices.

On my farm, our milk price has decreased significantly since June 2022. For example, the Federal Order 30 blend price in June 2022 was \$24.63 compared to the blend price in June 2023 of \$15.27. This represents a decrease of \$9.36 per hundredweight in twelve months and represents a decrease of over thirty-eight percent over twelve months. Our current milk price is well below our break-even prices.

USDA projects the 2024 US All Milk price will drop to \$19.10 per hundredweight. That represents a decrease of \$6.24 from the 2022 All Milk price of \$25.34 representing a decrease of 25%. [USDA World Agricultural Supply and Demand Estimates, July 12, 2023] This drastic drop in milk price, without a similar decrease in other milk production costs, has narrowed margins on many dairy farms to the point of being below their cost of production.

For the reasons I have outlined in my testimony, I strongly urge the USDA to accept and implement the five proposals put forth by NMPPF.

Thank you again for the opportunity to testify today.