Testimony Presented By:
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Land O' Lakes, Inc. supports the Milk Producers Federation Proposal for updating Class I Differentials throughout the United States

My name is Christian Edmiston and I am Vice President of Procurement at Land O'Lakes. I have worked in the dairy industry for over 20 years, including roles with Informa Economics, Kraft Foods, and Land O'Lakes. My primary areas of responsibility have been procurement and sales of dairy products such as milk, cheese, butter, whey, and cream, as well as dairy commodity market analysis and risk management. I have served on committees and represented my employers with the International Dairy Foods Association (IDFA), National Milk Producers Federation (NMPF), Chicago Mercantile Exchange (CME), and American Dairy Products Institute (ADPI).

Land O'Lakes is a dairy cooperative with 1,200 dairy farmer member-owners. Land O'Lakes has a national membership base, whose members are pooled on five different Federal Orders. Land O'Lakes ships milk into Class I plants in all three of its major milk producing regions Upper Midwest, East and California.

Land O'Lakes thanks the Department for calling this hearing to consider the modernization of federal milk marketing orders (FMMOs).

I present this testimony on behalf Land O'Lakes, Inc. Land O'Lakes fully supports NMPF, and this is submitted in support of Proposal Number 19: Update the Class I differential pricing surface throughout the United States.

The Federal Order Class I differentials are designed to provide financial incentives that ensure a reliable supply of Class I milk, but unfortunately the differentials have not been updated in many years and remain deficient as compared to the increased costs and the changes in the milk plant locations. Since the current differentials were set, many conditions have changed in the dairy industry, including the cost of hauling milk. As others have stated in their testimony, the cost of hauling milk is one of the primary drivers of the cost of supplying Class I milk.

Land O'Lakes has experienced significant increases in the cost of hauling milk since the early 2000's, roughly the last time the Class I differentials were updated. Our cost of hauling full truckloads of milk 100 miles have increased 71% from the early 2000s to 2022. This increase has been driven by a multitude of factors, including but not limited to: higher fuel costs, higher labor costs, mandated driver electronic log devices (ELD's), higher truck costs, and higher truck maintenance costs.

We also have experienced Class I customer requirements that are more stringent than the Grade "A" requirement. The increase in expected quality levels have driven higher cost on farm since the last update of the Class I differentials. Improvements on farms have been required since 2000 to meet these increases in quality levels as measured by indicators such as somatic cell counts (SCC's). Some of these improvements mean added costs, which include a shift from woodchip or straw bedding to sand requiring remodeled barns, changes to milking procedures, added materials such as teat sealants or dips, and backflush systems for milker units. There are plenty of other costs; these are just examples.

Land O'Lakes supports maintaining the Class I differentials relatively close across the Wisconsin/Chicago market and Central/Southeast Minnesota to maintain supply and prevent disorderly marketing. If the differentials reflected more of a slope this would create disorderly marketing due to milk being incentivized to leave Minnesota for more valuable demand in the Wisconsin/Chicago area. With Class I differentials also being used as producer location differentials, this would also impact producers that ship milk to plants in other classes. This would make it harder to attract milk in areas further from Chicago and make those plants less competitive. For instance, a cheese plant in Eastern Wisconsin would have a higher producer blend price than a cheese plant in Central Minnesota, despite the fact that the output from the two cheese plants would compete in the same cheese market.

Land O' Lakes expresses its appreciation to the Secretary of Agriculture and to the Dairy Division for holding this hearing. We strongly recommend the Secretary to adopt NMPF's Class I differential proposal. This will promote more orderly marketing of milk and will ensure an adequate supply of milk for Class I plants as needed to serve their markets.

Respectfully submitted,

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