

Testimony Presented By:
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Henrichs Farms Ltd. supports National Milk Producers Federation (NMPF) Proposal for restoring the Higher Of for establishing Class I mover from original Federal Order Reform.

My name is Bryan Henrichs. This testimony is presented in support of Proposal 13: Restore the original Federal Order Reform Class I Skim mover as Proposed by NMPF. My family operates Henrichs Farms Ltd. located in Clinton County, Illinois outside of Breese, IL. We milk approximately 310 cows along with raising 225 replacement heifers. We raise hay and corn for silage on 650 owned acres and 200 rented acres. We raise all of our replacement animals. Henrichs Farms operates a custom harvesting business to assist 75 farms in their harvest of feed for their operations. These activities utilize our equipment and generate extra income for the farm.

Dairy farming is our family's heritage as well as its future. I am a third generation dairy farmer along with my brother Rodney, who is my partner in the dairy operation. My two nephews and niece are employed by the dairy along with the custom harvesting business. Our family farm started back in 1938. We have gradually grown from about 4 million pounds to 7 pounds annually over the last decade. I have worked on the dairy farm along with our custom harvest operation to support my family which includes 5 daughters.

I serve on the Board of Directors for Prairie Farms Dairy, Inc. and I chair their strategic planning committee. I serve on the St Louis Dairy Council board and Midwest Dairy. I am a member of the Illinois Milk Promotion Board and Illinois Milk Producers Association along with American Farm Bureau Dairy working group. Through my involvement with these organizations, I interact with many dairy farmers. A common topic of discussion is milk pricing and the desire to return to 'the Higher of' for the pricing of the Class I skim.

We have seen many challenges with milk pricing to the producer community through price volatility and disparity of milk pay prices amongst dairy producers. From what I understand, the Federal Milk Market Order is to maintain orderly marketing in the regional area. One way that helps with orderly marketing is for the milk to be priced similar for all dairy producers. Some dairy producers have the ability to depool their milk, which has created disparity amongst dairy producers and disorderly marketing. Our milk from our dairy farm ships to the Prairie Farms plants around the St. Louis market which are all Order 32 plants. All of these are Class I plants don't allow us to depool my milk. One of the reasons before for setting the Class I price on the 'Higher of' was to ensure the Class I price was the highest and incentivize producers to ensure the Class I market had a secure supply. With the producers that supply not able to depool their milk was the incentivize and maintain orderly marketing.

With some farms ability to depool, this has created disorderly marketing as there isn't the incentive to serve the Class I market as they are getting a higher value for their milk. I am unable to have my cooperative depool my milk due to my milk serving the Class I market. I have heard from some in the industry that the negative Producer Price Differentials (PPD's) that took over 750 million dollars from dairy producer's checks according to NMPF analysis were caused by the USDA food box program. I would

disagree as the negative PPD's began not too long after the industry moved to the 'Average of' in May 2019. As you can see from the Table 1 below the negative PPD's from Order 32 began in September 2019 not long after the 'Average of' started:

Table 1: Order 32 PPD's - 2019			
	2019		2019
January	\$ 0.97	July	\$ 0.09
February	\$ 1.18	August	\$ 0.25
March	\$ 0.72	September	\$ (0.60)
April	\$ 0.17	October	\$ (1.29)
May	\$ 0.24	November	\$ (3.00)
June	\$ 0.64	December	\$ (1.29)

The negative PPD's have taken money from the producers checks and while we are appreciative for the PMVAP payments from the USDA in 2022 for the partial compensation of the \$750 million lost by dairy producers during the USDA food box program. I am appreciative for the PMVAP payments by I know some dairy producers that needed the money at the time and not 12 to 18 months later. I know of some that are no longer in business when they received the payments. We are appreciative of the support but the 'Higher of' will ensure that the dairy producer is compensated at the time of the sale instead of later by some other form or support. We are appreciative of the support for our operation from PMVAP but I worry if the USDA will always have the funds to provide such support.

We have used risk management tools in the past such as forward-contracting and DRP to help manage the price volatility of the dairy markets. With the 'average of' and the higher level of negative PPD's which acts as negative basis. We are familiar with negative basis with corn as that indicates what the market values the commodity at the time of sale. At least with corn, I can call the elevator and find out what the basis is and decide if I want to ship to market. We produce and ship a perishable product and with a negative PPD we don't know until 2 weeks after we are done shipping for the entire month whether or not there is a negative basis. I was shown a check from a neighbor that forward contracted in July 2020 when prices dropped dramatically. He shared with me his check as we locked in \$18.00/cwt. milk in a Class III futures contract. He lost on the futures contract as he would expect when the market rises but due to the negative basis or negative PPD he ended up with a net check of around \$9.00/cwt.

I continue to evaluate the amount of negative PPD's since going to the 'average of' and am reluctant to use forward contracting or DRP as part of my farm's risk management program.

I would like to express my appreciation to the Secretary of Agriculture and the Dairy Division for holding this hearing. I strongly recommend the Secretary to adopt NMPF's Proposal 13: Return to the Higher Of for calculation of the Class I Skim Mover. I further strongly recommend the Secretary adopt all NMPF's Proposals for the FMMO Modernization. This will promote orderly marketing of milk and ensure a more stable price for dairy producers to better manage their business.

Sincerely,

Bryan Henrichs
On behalf of Henrichs Farms Ltd.
Clinton County, Illinois