

**Testimony of Christina Zuiderveen before the United States Senate Committee on
Agriculture, Nutrition, and Forestry Subcommittee on Livestock, Dairy, Poultry, Local Food
Systems, and Food Safety and Security**

Good morning, it is an honor to be here representing the many dairy families in Iowa and across the United States. Chairwoman Gillibrand and ranking member Hyde-Smith thank you for giving me the privilege of taking part in our governing process.

I was born into a California dairy family who chased better market conditions into Michigan in the mid-90's. After we were married, my husband and I spent 2 years working on his family's 500-cow dairy before taking an opportunity in an emerging dairy market, the Central Plains, where we have lived for nearly 10 years. I live with my husband and our three children in Northwest Iowa, but we also work closely with my brother in Southeast South Dakota. Together, across three locations, we milk 15,000 cows.

I currently serve on the board of the Iowa State Dairy Association. ISDA has partnered with my co-op, EDGE, to form a regional milk pricing reform committee of which I am also a part. This committee has worked with several state associations to discuss ideas to reform milk pricing in a way that is fair for both dairy producers and processors across the Central and Midwest marketing orders.

Most milk in the United States is produced in areas regulated through Federal Milk Marketing Orders (FMMOs). This system was put in place decades ago to prevent dairy processors from making one dairy farmer bid against the other. In other words, FMMOs promise dairy producers that if their milk is as good as their neighbor's, they will be paid the same price. But, after decades of decline in sales of fluid milk, that promise now seems to be broken. Although these conditions benefited me personally last year, I am advocating for change because I want a fair system where everyone can compete on a level playing field.

In 2020, cheese prices were very high. We ship our milk to a cheese processor, so our milk price was high, and we were able to pay down debt and grow our operations. Meanwhile, some of our neighbors were forced to implement cost-cutting measures to stay afloat. I have spoken to dairy farmers all across Iowa who are struggling because they are paid far less for their milk because they are not paid solely on the cheese price. Our prices are most definitely not uniform.

This disparity is not unique to my region. I have family in California, Indiana, and Michigan who face the same problem. On the surface, it seems that pooling rules are the problem that led cheese processors to pull unprecedented volumes of milk out of FMMOs last year. But the deeper issue is that FMMOs do not provide market-based incentives to move milk to the processing plants where it is most valuable. For decades, FMMOs encouraged overproduction of cheap non-fat dry milk powder. When fluid milk sales were high, they subsidized milk powder returns. With fluid sales declining, per federal order rules, cheese makers are left to subsidize powder through revenue pooling, and they of course declined to do so in 2020. Good intentions to create a system with uniform prices has resulted in a distorted system that is now coming unglued, to the detriment of dairy families whose income depends – at least in part – on the value of a blend of fluid milk, milk powder, and butter.

The government has provided risk management tools, including the Dairy Margin Coverage (DMC) program and the Dairy Revenue Protection (DRP) insurance. We use DRP along with futures and options

to lock in floor prices for our milk. Last year we suffered substantial hedging losses as we tried to navigate markets that were pushed around by the pandemic and subsequent government interventions. Hedging losses are an unavoidable cost of risk management. Even though we incurred a loss on our hedging, we were able to offset the loss because our milk check climbed with the Class III price. Our neighbors and family who receive a blended milk price were extremely disadvantaged. Last summer, while we cashed some of our largest milk checks ever dairies in Michigan and Indiana were forced to sell their milk at the lowest prices since the historic dairy downturn of 2009.

The DRP and DMC have reduced the cost for producers to hedge against volatility and poor margins. But our pricing system must be improved to allow all producers to manage their commodity market risk. If dairy producers like my neighbors in Iowa and my relatives in Michigan can't anticipate what class of milk will participate in the FMMO pool, they won't know whether their milk checks will be based on the cheese price or the butter and powder price and they cannot hedge effectively. This happened on my sister's dairy, where I was raised in Michigan. Just like my dairy they hedged based on the cheese price and incurred a loss, however their milk check took a dive along with the class IV markets, so their loss was compounded. Byzantine FMMO rules make it hard to predict how her farm's milk revenue will correlate with the main milk price benchmarks on the commodity exchange. After this experience they are only willing to hedge a small portion of their milk and are much more exposed to market volatility. The combination of unpredictable FMMO pooling and ad-hoc government bailouts creates a moral hazard which further discourages risk management.

I appreciate that the DRP and traditional risk management tools are based on free markets. We should be careful to offer the same market-based freedoms to processors, who invest immense sums in our industry and also face commodity risks. We can modernize federal order regulations to provide consistent and predictable benefits to pooling milk and incentivize processors to react more quickly to shifts in market demand by redirecting milk to plants that produce the most valuable dairy products.

Milk pricing formulas currently prioritize fluid milk, which does not reflect the fundamental shift in market share to an export-driven market. For decades, fluid consumption has continually decreased. This decline coupled with depooling does not leave enough milk in the pool to provide premiums. In fact, dairy producers have frequently seen deductions on their milk check in the last year. Updating the order design to provide consistent benefits to all manufacturers would over time lead to a shift in plant capacity and product mix towards more value-added processing, which would reduce the disparities between our pay price and those of our disadvantaged competitors. In addition, changing the timing of the Class I pricing calculation to be nearer to the other classes of milk could reduce the incentives for manufacturers to de-pool.

The current federal order system is necessary and provides a safeguard against the market power of large milk buyers. But the system should be modernized to stimulate financial transparency and promote competition and innovation as opposed to consolidation among both processors and producers. Making milk checks more transparent would benefit dairy producers in two ways. Dairyman would better understand their earnings and might be able to make changes to farm management practices or co-op policies to avoid future deductions. Promoting competition between processors will give dairy families a better milk price and incentivize the development of new products and markets. Competition is good for everyone!

Every day, dairy producers must compete with one another for land, labor, livestock, and feed. The wide variance in mailbox prices caused by current pricing formulas creates a sense of helplessness among producers. While competition is good, it is unfortunate that federal policies create an uneven playing field. When some producers receive as much as \$9 less for their milk than their peers, even the best operator would not be able to compete in the long run.

As a child my dreams for the future did not include owning and operating a dairy. Now that I have had the opportunity, I cannot imagine raising my kids in any other environment. They get to learn firsthand the value of hard work, where our food comes from, and how to care for the land and animals that God has asked us to steward. I am currently raising one equine enthusiast, one future vet, and one future dairyman; it is important to me that we design a system that gives them the best chance to accomplish their dreams.

Thank you again to Chairwoman Gillibrand, ranking member Hyde-Smith, and the rest of the committee for your time. It has been an honor to be here.