

JOINT HEARING/AGRICULTURE COMMITTEES

JANUARY 14, 2021

8:30 AM CST

Testimony By

KIMBERLY KESSLER

CHAIRMAN LUICK

CHAIRMAN JOHNSON

MEMBERS OF THE SENATE AND HOUSE AGRICULTURE COMMITTEES

MY NAME IS KIMBERLY KESSLER AND I AM THE CHAIRPERSON AND THE RETAIL GROCER MEMBER OF THE NORTH DAKOTA MILK MARKETING BOARD.

THANK YOU FOR THIS OPPORTUNITY TO REVIEW WITH YOU THE OPERATION OF THE NORTH DAKOTA MILK MARKETING BOARD.

OUR FIVE BOARD MEMBERS APPOINTED BY THE GOVERNOR ARE AS FOLLOWS: MR. DWANE WANZEK, DAIRY FARMER FROM CLEVELAND; MR. KRISS ALLARD, CREAMERY OPERATOR FROM MINOT; MRS. JULIE GARDEN-ROBINSON, CONSUMER MEMBER FROM FARGO; MRS. BARBARA LANG, CONSUMER MEMBER FROM JAMESTOWN; AND MYSELF.

NORTH DAKOTA'S 2015 LEGISLATURE REWROTE THE LAW THAT ESTABLISHED A MILK MARKETING BOARD WITH POWERS TO REGULATE FLUID MILK PRICES AND FAIR TRADE PRACTICES WITHIN THE DAIRY INDUSTRY AND ESTABLISH MILK-MARKETING AREAS WITHIN THE STATE. EXPERTS IN THE FIELD CONSIDER IT TO BE THE BEST AND MOST FLEXIBLE STATE MILK LAW IN THE COUNTRY.

THE BOARD'S MISSION IS MULTI-FACTED. ITS PRIMARY OBJECTIVES ARE TO PROMOTE AND ENSURE AN ADEQUATE SUPPLY OF FRESH, WHOLESOME MILK TO THE PUBLIC OF THE STATE. RECOGNIZING THE PERISHABLE NATURE OF MILK, IT ALSO SETS MINIMUM DAIRY FARMER, WHOLESALE AND RETAIL PRICES OF MILK PRODUCTS ON A MONTHLY BASIS. ADDITIONAL BOARD OBJECTIVES INCLUDE TAKING ACTION TO ELIMINATE UNFAIR AND DEMORALIZING TRADE PRACTICES AND TO PROVIDE ECONOMIC STABILIZATION TO THE STATE'S DAIRY INDUSTRY.

THE CURRENT DAIRY MARKETING CLIMATE IS BATHED IN UNCERTAINTY. MARKETERS WANT TO MEET STRONG, CURRENT DEMAND - BUT THEY ARE LEARY OF

COMMITTING TO PURCHASES BEYOND A FEW MONTHS OUT DUE TO SERIOUS CONCERNS ABOUT THE FUTURE DIRECTION OF THE NATION'S ECONOMY

THE DOWN-AND-UP-AND-DOWN-AND-UP CYCLE OF COMMODITY CHEESE PRICES CONTINUED IN 2020. THE YO-YO PRICE MOVEMENTS WITHIN THE MARKET WERE RELATED TO TREMENDOUS UNCERTAINTY THAT THE INDUSTRY EXPERIENCED LAST YEAR - WITH MORE LIKELY AHEAD IN 2021 AND BEYOND. LAST MARCH, AS THE COVID-19 EPIDEMIC CLOSED MANY SCHOOLS AND BUSINESSES, DAIRY COMMODITY PRICES PLUNGED. BY LATE APRIL, CHEESE PRICES DROPPED FROM A PEAK OF \$1.97 PER POUND TO BOTTOM OUT AT A WORM-CASTINGS LOW OF \$1.00 PER POUND. BUT CONSUMERS' AGGREGATE DEMAND FOR DAIRY PRODUCTS SHARPLY INCREASED AS MORE MEALS WERE PREPARED AND CONSUMED AT HOME USING A MULTITUDE OF DAIRY PRODUCTS - AND WASHED DOWN WITH LOTS OF MILK. THOSE CHANGED FOOD HABITS, COUPLED WITH THE FIRST ROUND OF USDA-FUNDED FOOD BOXES AND FOOD BANK DONATIONS, PROPELLED CHEESE PRICES TO \$3.00 PER POUND IN JULY.

BUT THEN REALITY SET IN. DURING JULY'S SECOND HALF AND INTO AUGUST, CHEESE PRICES AGAIN NOSE-DIVED, BUT MODESTLY RECOVERED. THE UP-AND-DOWN PRICE SHIFTS HAVE BEEN MIND-NUMBING TO ALL IN THE DAIRY INDUSTRY'S FARM-TO-CONSUMER SUPPLY CHAIN.

SO WHAT IS AHEAD? THE DAIRY INDUSTRY CONTINUES TO CHANGE, LEAVING MANY TO WONDER WHAT IS IN THE FUTURE. CURRENTLY, THE NORTH DAKOTA DAIRY INDUSTRY IS FACING THE FOLLOWING CHALLENGES:

1. DAIRY FARM PROFITABILITY; AND,
2. MILK DISTRIBUTION.

IN RELATION TO DAIRY FARM PROFITABILITY, ONE OF THE SIZEABLE INPUT COSTS FOR NORTH DAKOTA DAIRY FARMERS IS THE COST OF HAULING RAW MILK FROM FARM TO PLANT. NORTH DAKOTA DAIRY FARMERS ARE PHYSICALLY SPREAD-OUT IN 24 INDIVIDUAL NORTH DAKOTA COUNTIES. SUBSEQUENTLY, NORTH DAKOTA DAIRY FARMER MILK HAS TO MOVE LONG DISTANCES IN ORDER TO BE PROCESSED AND MARKETED.

NORTH DAKOTA AVERAGE HAULING CHARGES ARE STRONGLY INFLUENCED BY THE LONGER HAULING DISTANCES, SMALLER PER FARM PRODUCTION, AND LACK OF CHEESE MANUFACTURING PLANTS. MOST OF NORTH DAKOTA'S DAIRY FARMERS ARE DISTANTLY LOCATED FROM MAJOR CLASS ONE MARKETS. LAST YEAR, THE AVERAGE HAULING

CHARGE TO DAIRY FARMERS LOCATED IN NORTH DAKOTA WAS \$0.67 PER HUNDREDWEIGHT HIGHER THAN THE AVERAGE OF THE LARGER DAIRY STATES OF MINNESOTA AND WISCONSIN. THIS IS PRECISELY ONE OF THE REASONS THAT THE MILK BOARD ESTABLISHES PREMIUMS, TO HELP OUR DAIRY FARMERS COVER THEIR ABOVE AVERAGE HAULING COSTS.

TO FURTHER ASSIST THE STATE'S DAIRY FARMERS, THE MILK BOARD HAS ESTABLISHED PREMIUM PAYMENTS ON CLASS ONE BOTTLING MILK PRICES. OVER THE PAST TWO YEARS, THESE PREMIUMS RANGED FROM \$.09 TO \$.83 PER HUNDREDWEIGHT, OR AN AVERAGE CLASS ONE BOTTLING MILK PREMIUM OF \$.71 PER HUNDREDWEIGHT ABOVE THE FEDERAL MILK ORDER. AS A RESULT, THIS PREMIUM HAS PROVIDED OUR STATE'S DAIRY FARMERS WITH ADDITIONAL INCOME OF \$3,014,645 OVER THE PAST TWO YEARS.

IN ADDITION TO BOLSTERING INCOME FOR THE STATE'S DAIRY PRODUCERS, OUR AUDITORS HAVE RECOVERED OVER \$1,359,471 IN DAIRY FARMER UNDERPAYMENTS, TO DATE, HAD THE BOARD'S AUDIT PROCESSES NOT BEEN IN PLACE, THIS IS INCOME OUR STATE'S DAIRY FARMERS WOULD NOT HAVE RECEIVED.

THE SECOND CHALLENGE IS MILK DISTRIBUTION TO THE RURAL AREAS OF OUR STATE. THIS CONTINUES TO BE AN AREA OF GROWING CONCERN TO MILK DEALERS.

MILK DISTRIBUTION TO OUR SMALL TOWNS AND RURAL AREAS COVERS MANY MILES AND VERY SMALL VOLUMES OF MILK. THE COST TO DISTRIBUTE MILK IN THESE AREAS IS ALMOST TRIPLE WHAT IT COSTS TO DISTRIBUTE THE SAME VOLUMES OF MILK IN OUR STATE'S LARGE CITIES. CREAMERIES HAVE TURNED OVER MORE OF THE RURAL AREA DISTRIBUTION TO OUR SMALL TOWN DISTRIBUTORS IN ORDER TO CONTROL THESE COSTS. EXAMPLES OF THIS ARE AS FOLLOWS:

(1.) PRIDE DAIRY IN BOTTINEAU DISTRIBUTES MILK TO WAL-MART, AND DEAN FOODS PAYS PRIDE DAIRY A DRAYAGE FEE FOR THIS DISTRIBUTION; AND,

(2.) SUNRISE DAIRY IN MINOT WHICH PROVIDES SERVICE TO THE MANY SMALL COMMUNITIES IN THE NORTHWEST AREAS OF THE STATE.

MILK DISTRIBUTION TO WESTERN NORTH DAKOTA PRESENTS CHALLENGES IN FINDING TRUCK DRIVERS. MILK DEALERS ARE USING SLEEPER CABS ON THEIR SEMIS AND RECONFIGURING THEIR ROUTES OUT OF BISMARCK AND FARGO TO ADDRESS THESE CHALLENGES. IT IS EASIER, FASTER AND LESS EXPENSIVE TO TOW THEIR EQUIPMENT BACK

TO BISMARCK OR FARGO FOR REPAIR THAN TO HAVE THEIR EQUIPMENT REPAIRED IN WESTERN NORTH DAKOTA.

THE INTRODUCTION OF MEGA RETAILERS HAS CAUSED A LOSS OF SMALL TOWN RETAIL GROCERS AND SMALL TOWN DAIRY PRODUCT DISTRIBUTORS. WHEN SMALL TOWN DAIRY DISTRIBUTORS LOSE THEIR GROCERY STORE AND CONVENIENCE STORE ACCOUNTS, THEY ARE LEFT WITH LITTLE OR NO BUSINESS, FORCING THEM TO LOCK THE DOORS. IT BECOMES MORE DIFFICULT TO DISTRIBUTE DAIRY PRODUCTS TO OUR RURAL AREAS BECAUSE OF THE LOSS OF MILK SALES. THIS ULTIMATELY RESULTS IN RURAL AREAS OF OUR STATE THAT MAY NOT RECEIVE MILK PRODUCT SALES OR SERVICE.

GROCERY STORES IN WESTERN NORTH DAKOTA ARE FACED WITH THE SAME CHALLENGE OF FINDING AFFORDABLE LABOR. REGIONAL ECONOMIC FACTORS HAVE FORCED THEM TO PAY VERY HIGH WAGES OR, IN SOME CASES, UTILIZE INTERNATIONAL EXCHANGE STUDENTS TO STAFF THEIR STORES. HIGHER LABOR AND INPUT COSTS HAVE RAISED THEIR COST OF OPERATIONS EXPONENTIALLY, AND THUS, THEY HAVE HAD TO ADJUST THEIR RETAIL PRICES TO CONTINUE TO OPERATE.

IN CONCLUSION, THE MILK BOARD IS CURRENTLY WORKING WITH THE DAIRY INDUSTRY TO TRY TO RESOLVE THESE ISSUES AND LESSEN THE IMPACT ON OUR NORTH DAKOTA DAIRY INDUSTRY.

ON BEHALF OF THE MILK BOARD MEMBERS, WE APPRECIATE THIS OPPORTUNITY TO UPDATE YOU ON THE OPERATION OF THE NORTH DAKOTA MILK MARKETING BOARD. I WOULD BE HAPPY TO TAKE ANY QUESTIONS YOU MAY HAVE.