



State of Vermont
Senate Committee on Agriculture
115 State Street
Montpelier, VT 05633

Dear Senator Starr and members of the Vermont Senate Committee on Agriculture,

Thank you for this opportunity to testify on behalf of Stonyfield. We appreciate the attention the Vermont legislature is bringing to the crisis that organic dairy producers in this region are facing, and we hope that the state will take action to protect the future viability of organic dairy in Vermont.

Stonyfield's commitment to VT and Northeast organic dairy farmers

Stonyfield was founded in 1983 in NH with the goal of helping small family dairy farmers survive and using business as force for good. Although the business has changed over the years we remain as committed as ever to the viability of organic dairy farming in this region. Today our headquarters are in Londonderry, NH and we do the majority of our manufacturing in at this facility. Because of this, we source as much of our milk from this region as we are able.

Stonyfield's milk comes from 2 sources, our direct supply program and the CROPP cooperative, sold under the brand name Organic Valley. Stonyfield's direct supply was launched in 2014 because we wanted to do more to work with farmers in this region to strengthen the future of organic dairy in the Northeast. We have 35 farms in our direct supply in VT, NH, ME, and eastern NY.

Shortly after we launched the direct supply we also teamed up with Wolfe's Neck Center for Agriculture and the Environment in Maine to provide \$1.6 million in funding to launch a training program for new organic dairy farmers. We did not know then that we were heading into a period of oversupply for the organic dairy market that would make it challenging for new organic dairy farmers to start their own farms. Despite these challenges we have seen many successful graduates from this program go on to work in the organic dairy industry in this region. In 2021 we were proud to welcome the first graduate of this program, Haden Gooch and his wife Katie Gualtieri, to start their own new farm in Maine into our direct supply.

The balance of our milk comes from the CROPP cooperative, with whom we have a long-standing business relationship. Nearly all of the raw whole milk we purchase from them comes from the Northeast, including NY and PA.

Our parent company, Lactalis, continues to invest in our processing plant in NH. We currently have construction underway that will maximize our ability to produce yogurt onsite in Londonderry. This continued investment in the NH plant underscores our commitment to this region – by investing in new infrastructure in this region we are essentially renewing our commitment to sourcing organic milk from this region. Sourcing organic milk from family farms nearby in New England is core to our mission, but it's also the best business decision as it reduces hauling costs and helps us maintain the highest milk quality standards.

When we saw the viability of organic dairy threatened in this region by the departure of a major organic dairy processor last year, we stepped in to co-chair a regional task force to bring recommendations to USDA on how the agency could better support the viability of organic dairy in this region. This resulted in USDA dedicating \$80 million in new funds to the Dairy Business Innovation Centers, \$20 million of which went to the Northeast DBIC.

We are also strong supporters of the Northeast Organic Family Farm Partnership, an organization launched by Stonyfield's co-founder and former CEO Gary Hirshberg to encourage consumers and retailers to commit to purchasing more regionally produced organic dairy products in an effort to further strengthen our regional organic dairy economy. In its first year the partnership signed on nearly 40 co-ops in support of this effort and secured the commitment of Sodexo to increase the sale of regional organic dairy products at all 32 college campuses they serve in this region.

Organic milk pricing and organic feed pricing

Organic dairy prices are typically not set based on the federal order system. We do not publicly share details about our milk pricing system, but we can share some general trends and context. Between 2017-2021 there was an oversupply of organic milk which put downward pressure on the pay price for organic dairy. Over the past year we have raised our pay price twice in response to inflation.

While we were able to respond to the general inflation that organic dairy producers have experienced, we do not feel we have been able to respond adequately to the dramatic increase that has happened in the price of organic feed, which is substantially greater than the general rate of inflation and a result of extenuating circumstances.

Our ability to increase the price of milk has been impacted by the universal pressures of inflation across our business, increasing expenses in every category and simultaneously restricting the purchasing power of consumers in the store. As consumers also respond to the impacts of inflation on their own budgets, they are increasingly seeking out private label organic products and/or switching to conventional options. Overall yogurt consumption is down across the entire conventional and organic yogurt category, and we are working hard to counter these trends. This inhibits our ability to respond on price for organic dairy producers, because we do not have the ability to pass further price increases along to the consumer without impacting sales, which would ultimately be counterproductive for organic dairy demand.

The United States lags in domestic production of organic grain, leaving all US organic livestock producers dependent on purchasing imported organic feed unless they are able to produce feed on their own operation. Most organic dairy producers in this region have sufficient pasture and hayland but do not produce their own grains, so they are vulnerable to shifts in the market for organic feed.

Two major factors started to have significant impacts on the global price for organic feed in 2021. The National Organic Program discontinued the recognition agreement with India for organic certification, which reduced organic grain supplies, and furthermore, countervailing duties related to an international anti-dumping case on Indian soybeans cut off access to this major source of organic feed. The Russian war in the Ukraine significantly cut exports of organic grains from the Black Sea region, which was previously a major source for organic grains. Together these two regions represented a substantial portion of all organic grains available in the global market, and the loss of supply from both of these regions at the same time had a major impact on organic grain prices.

For example, according to Mercaris market data, prices for organic soybeans in the U.S. rose to \$40.52 per bushel in May 2022, up nearly 110% from January 2021's \$19.37 per bushel. Today organic soybean prices are still over \$31 per bushel. During that same timeframe, conventional soybean prices ranged between \$13 and \$17 per bushel and as of this fall are around \$14.50/bushel. Purchased feed is generally the highest input cost for organic dairy operations, so these price increases represent a substantial new financial burden on organic dairy farmers.

A final point of clarification about organic milk pricing is that at Stonyfield we pay 100% of the milk collection and inbound hauling costs. We have observed various models on how these costs are managed between producers and processors for both conventional and organic dairy. In most cases producers share a part or all the costs associated with milk collection and hauling and have been burdened with additional inflationary cost pressures over the last two years. By Stonyfield paying for 100% of these costs we have offered a degree of inflationary coverage to organic producers shipping to us.

Stonyfield's expectations around the future of the market in this region

As we noted earlier, Stonyfield and our parent company Lactalis continue to invest in our NH manufacturing facility and intend to continue sourcing as much of our milk as we can from this region. We do see positive signs that the organic grain market is stabilizing. Organic grain prices have started to decline from their peak in late 2021- early 2022. It will take some time for the price of organic feed at the grain mill to fully reflect this decline, but producers have started to see some relief and we expect this trend will continue. We do not see an indication that organic grain prices will return to the levels they were pre 2021, but some relief is on the horizon.

We are glad to see that USDA is investing in the future of organic here in the US with \$300 million in funds that will support producers in transitioning to organic (<https://www.usda.gov/media/press-releases/2022/08/22/usda-invest-300-million-new-organic-transition-initiative>). We are urging USDA and the organizations it partners with to focus those funds on supporting transition to organic grain so that the sector can be less dependent on imported organic grain.

USDA has also stated that they will be providing \$100 million in emergency relief to organic dairy producers nationwide. We have not yet seen details on how these funds will be distributed, but we are hopeful that this will provide some measure of relief for the financial strain these producers have been experiencing.

While we are grateful for the USDA support, we do not expect that it will be sufficient to fully compensate organic dairy producers for the losses they have incurred over the past 2 years. Additional

support from the state would be highly valuable for helping VT's organic dairy sector continue to weather the storm they have been enduring, and set them up for success into the future. We appreciate your attention to this critical issue and are eager to continue to support these efforts in any way that we can. Please feel free to reach out with any further questions, and we would welcome you to visit our plant in Londonderry.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rolf Carlson', followed by a long horizontal line extending to the right.

Rolf Carlson

VP of Sourcing, Sustainability and Corporate Quality

Rolf.carlson@us.lactalis.com