

Direct Testimony for Federal Milk Marketing Order Pricing Hearing
American Farm Bureau Federation
Category 2: Survey Commodity Products

Pre-submitted by August 23, 2023

The American Farm Bureau Federation (AFBF) has nearly 6 million members in all 50 states and Puerto Rico, including many thousands of cooperative and independent dairy farmers. All of these dairy farmers are indirectly or (mostly) directly affected by the pricing provisions of the Federal Milk Marketing Orders (FMMOs).

These dairy farmers play a crucial role in the development of AFBF dairy policy. Every Farm Bureau position and proposal is based explicitly on that policy, developed through a grassroots process in which farmers make the decisions at every step of the way.

AFBF submitted 9 proposals for consideration in this hearing, and appreciates the opportunity to address the four that were accepted by USDA for consideration in this hearing, as well as the clear direction on what may be needed to advance the rest.

A fundamental focus of AFBF's proposals is the reduction or elimination of negative producer price differentials and the de-pooling they cause. We believe that an orderly pool is the key to orderly marketing and the continued benefits of the federal milk marketing orders to farmers, cooperatives, processors, and consumers. The key to an orderly pool, in turn, is above all the proper alignment of the four Class prices.

In addition to our own proposals, AFBF largely supports four of the five proposals submitted by NMPF. (These are proposals 1, 3, 13, and 19.) For these, I will outline any substantive difference in our position, with an explanation for that difference. In the event that NMPF withdraws any of these proposals, wholly or in part, AFBF would ask that USDA consider such whole or partial proposal to be AFBF's proposal to represent.

This statement covers Category 2, Survey Commodity Products, and includes AFBF's response to Proposal 3, made by NMPF, and our presentation of Proposals 4 and 5, submitted by AFBF.

Response to Proposal 3. The National Milk Producers Federation (NMPF) proposes to drop barrel cheese from Class III component and price calculations.

The American Farm Bureau Federation supports this proposal as written.

As NMPF outlines in its proposal, barrel cheese represents roughly 50% of the volume in the National Dairy Product Sales Report (NDPSR) but is used to set prices for only about 10% of cheese in the U.S. market. Price divergence between block and barrel prices now creates a "cheddar" cheese price for use in the formulas that is not representative of the value of 90% of cheese. We expect that the elimination of the barrel price from the survey will contribute to an even greater reliance on block prices in the U.S. cheese market, further reinforcing the block price as the appropriate foundation for the Class III protein and skim milk price.

Barrels should be dropped from the survey whether or not 640-pound blocks are added, per proposal 4.

Proposal 4: The American Farm Bureau Federation proposes that 640-pound blocks be added to the National Dairy Products Sales Report, to the cheddar cheese price calculation, and to the Class III protein calculation.

This is consistent with dropping barrels from the survey, per Proposal 3 by the National Milk Producers Federation (NMPF), but does not depend upon that measure.

As NMPF has indicated in that proposal, barrel cheese represents roughly 50% of the volume in the National Dairy Product Sales Report (NDPSR) but is used to set prices for only about 10% of cheese in the U.S. market. Price divergence between block and barrel prices now creates a “cheddar” cheese price for use in the formulas that is not representative of the value of 90% of cheese.

Adding 640-pound blocks to the survey would expand the volume

and emphasizing blocks generally; however, it would also move the balance of blocks and barrels closer (but not close) to the actual market mix in the event that USDA decided not to remove barrels from the survey. No price adjustment is necessary to integrate these larger blocks into the survey, as every indication we have is that the two sizes are largely interchangeable in price, use, and storage.

Need: There has been a pronounced shift from 40-pound blocks to 640-pound blocks in the marketplace. Adding 640-pound blocks would provide a deeper volume to the survey immediately and would avoid the need for a hearing in the future simply to address the further dwindling of 40-pound block volume.

As NMPF outlines in its proposal, barrel cheese represents roughly 50% of the volume in the NDPSR but is used to set prices for only about 10% of cheese in the U.S. market. Divergence between block and barrel prices now creates a “cheddar” cheese price for use in the formulas that is not representative of the value of cheese.

Impact: We expect that the addition of 640-pound blocks to the survey will strengthen price discovery, avoid the potential for block manufacturers to switch between sizes to avoid and re-enter the price survey, and avoid a possible crisis of dwindling small blocks in the future. That is, a large and reliable survey volume will help avoid some sources of disorderly marketing.

A deeper survey will provide a stronger foundation for the Class III protein and skim milk price.

Language:

Add Section 1000.50(n)(1)(iii), as follows:

(iii) The U.S. average AMS survey price for 640-lb. block cheese reported by the Department for the month;

Sources:

A 2002 upgrade to AMPI’s Paynesville, MN, plant would “enable the plant to process an extra 500,000 pounds of milk per day into another roughly 50,000 pounds of cheese” in a plant that “produces 500-pound barrels and 640-pound blocks of cheddar cheese, most of which is further processed in Wisconsin into packages for consumers.”

<https://www.paynesvillearea.com/news/headlinesarticles/archives/082802/0828ampi.html>

The Glanbia Foods plant in Clovis, NM, opened in 2006 and was expanded in 2009. “The plant produces blocks of cheddar cheese weighing up to 640lb using 10.5Mlb of milk per day. Glanbia Foods’ other operations make only 40lb blocks and 500lb (225kg) barrels. Many customers have requested the 640lb blocks as they lower waste and make it easier to create exact-weight packages for supermarket customers. In addition, most cheese-shredding companies have installed equipment which uses 640lb blocks.”

https://www.foodprocessing-technology.com/projects/southwest_cheese/

“Located about 15 miles north of Lansing, in the heart of America’s automotive manufacturing industry, MWC found not only a talented local labor pool, but also the abundant supply of milk required for its new processing facility.

“The 375,000-sq-ft dairy facility receives 8 million lb of raw milk per day and, from that, produces about 850,000 lb of cheese in 40- and 640-lb blocks per day. MWC also produces whey protein concentrate and isolates at a rate of about 3,000 lb per hr, which are packaged in 20-kg and bulk bags.

“Started up in October 2020, MWC’s building now spans over 9 acres and processes about 25% of the milk produced in Michigan.”

<https://www.profoodworld.com/processing-equipment/facility-design-construction-services/article/21452361/mwc-creates-a-cheese-and-whey-recipe-for-success>

“Hilmar produces cheese and whey at its flagship plant in Hilmar, Calif., and in Dalhart, Tex. Both locations produce 40-pound, and 640-pound blocks of natural style cheeses such as Cheddar, Monterey Jack, Pepper Jack, Colby, and Colby Jack. They also produce various concentrations of whey protein.”

<https://www.farmprogress.com/dairy-cattle/calif-cheese-manufacturer-expands-to-kansas>

“Moreover, the NDPSR cheese price includes only 40-lb. blocks and 500-lb. barrels, but most new block production is being made into 640-lb. blocks. Adding 640-lb. blocks to the NDPSR survey would be a good first step toward recalibrating the weight given to barrels, and it would better reflect commercial activity.” - Ken Meyers, President, MCT Dairies, Inc.

<https://www.mctdairies.com/wp-content/uploads/2019/07/MCT-Dairies-Compass-2018-11.pdf>

Proposal 5: The American Farm Bureau Federation (AFBF) proposes adding unsalted butter to the butterfat and protein calculation.

The growing volume of unsalted butter production and use in the U.S. market has meant that salted-only butter price collection in the National Dairy Products Sales Report (NDPSR) survey increasingly underrepresents the value of U.S. butter.

At the time that the butter price survey was developed by the National Agricultural Statistics Service (NASS) in 1999, it was done in support of federal milk marketing order reform, per the preamble to the recommended decision for order reform, but there was no rulemaking – by AMS or NASS – to establish the logic for excluding unsalted butter. Later regulations in 2008 and 2012 did not address this decision, either. (See 64 FR 16093, 73 FR 34181 et seq., 77 FR 8721 et seq.)

Need: The NDPSR collects prices only for salted, 80% fat butter in 25-kilo and 68-lb. boxes. This only captures a small and declining share of U.S. butter production. Based on a comparison of the NDPSR totals for a 52-week year and NASS dairy products annual reporting, butter in the NDPSR survey has fallen from 16.0% of total butter production (in the original NASS survey) to 10.9% in 2013 and 9.4% in 2022, in the current AMS survey. We have every reason to believe that this trend will continue without the addition of unsalted butter. The rest of the world produces and consumes primarily unsalted butter and growing volumes of commodity unsalted butter are being used by American bakers and confectioners. Although unsalted butter was produced in small quantities in the U.S. at the time of federal order reform, its share of U.S. production and sales has grown very substantially since then and is projected to continue growing. The result of this growth is that a substantial volume of commodity butter is not included in a NDPSR survey and is increasingly underrepresented.

While producing and distributing unsalted butter was once more difficult and expensive for butter plants, and butter was typically salted to allow for extended storage, U.S. butter makers are increasingly offering unsalted butter to domestic and overseas customers, matching the European convention. As a result, the definition of butter in the current data collection is outdated.

The continued specification of salted butter in the CMEGroup butter market specification is based on old technology; it may still be a reasonable standard in order to assure a uniform product, but it is unnecessarily restrictive for the purposes of the NDPSR survey, just as the CMEGroup spot exchange specifications for cheddar cheese calls for 40-lb. blocks, but it used to price 640-lb. blocks, as well.

USDA butter grading data should demonstrate growth in demand and production of unsalted butter. In addition, US butter exports have grown from about 2,000 metric tons in 2000 to over 65,000 metric tons in 2022, almost entirely supplied with unsalted butter. (Find at <https://apps.fas.usda.gov/gats/default.aspx>)

Impact: Incorporating the unsalted butter price into the FMMO butterfat formula will expand the base of the survey and make the survey price more representative of an evolving butter market. Collecting and publishing separate prices for salted and unsalted butter will allow for better market transparency and more orderly marketing of butter and milk. Anecdotal evidence suggests that unsalted butter is slightly more expensive than salted butter, but we believe that this is a specialty premium that is disappearing as unsalted butter becomes more common.

Language:

(I) Butterfat price. The butterfat price per pound, rounded to the nearest one-hundredth cent, shall be the weighted average of the U.S. average NASS-AMS AA salted and unsalted Butter survey prices reported by the Department for the month, less 17.15 cents, with the result multiplied by 1.211.