



United States Department of Agriculture  
Before The Secretary of Agriculture

In re: [Docket No. 23-J-0067; AMS-DA-23-0031]

Milk in the Northeast and Other Marketing Areas

Hearing beginning August 23, 2023

Testimony With Respect to Surveyed Commodity Product Proposals #3 and #4

Testimony Presented By:

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Edge Dairy Farmer Cooperative (Edge), based in Green Bay, Wis., is the third largest dairy cooperative in the country based on milk volume. In addition to milk verification services, Edge provides dairy farmers throughout the Midwest with a voice in Congress, with customers and within our communities. Our over 800 member farms are located in Illinois, Indiana, Iowa, Kansas, Minnesota, Nebraska, Ohio, South Dakota and Wisconsin. We represent farmers but not a specific product or set of products, as our farms ship to over 30 processors making a wide variety of products.

I am Marin Bozic, President of Bozic LLC, and advisor to the Board of Directors of Edge Dairy Farmer Cooperative. I have already stated my credentials in the exhibit Edge-1. This testimony focuses on the topic of Surveyed Commodity Products, proposal #3 by National Milk Producers Federation (NMPF) to eliminate the Cheddar cheese 500-pound barrel price series from protein price formula, and proposal #4 by American Farm Bureau Federation (AFBF) to add 640-pound Cheddar cheese blocks to the protein price formula.

Edge Dairy Farmer Cooperative remains principled in approach throughout this hearing in efforts to improve orderly marketing of milk in the United States. While we represent dairy farmers, we base all our proposals on the principle that a good policy design must be fair to both farmers and processors, including both cooperatively owned and privately held processors of dairy products and fluid milk product makers. We believe that, more than ever before, risk management is critical for success of our nation's dairy farmers, cheese and dry dairy product exporters, and innovators in fluid milk sector. These principles compel us to react to proposals and testimonies offered last

week with a commentary we hope all interested parties will find based sound economics and common sense.

### **Modifications to proposals 3 and 4:**

Edge agrees with both National Milk Producers Federation and American Farm Bureau Federation that changes to the National Dairy Products Sales Report (NDPSR) methodology are needed to improve orderly marketing of milk in the U.S. We also find the International Dairy Foods Association (IDFA) testimony in opposition to these proposals to be well reasoned. Prior to the hearing, Edge did not originally plan to weigh in on this topic and that is why we did not submit our own proposal.

However, having read the testimonies of both the proponents and the opponents to proposals 3 and 4, we respectfully request the industry and the AMS to allow us to present an alternative protocol that is a natural outgrowth of this discussion so far, and attempts to bridge the differences among parties who have testified so far without compromising on the quality of the solution. Rather than rejecting proposals 3 and 4, we urge AMS to consider an alternative protocol proposed in this testimony, which we believe is a better way to address the problem with surveys than either eliminating barrel cheese or adding additional cheese varieties to the survey.

The volatility in block-barrel cheese spread started in 2017. I have analyzed these developments based on available anecdotal evidence and unpublished data obtained from individuals with deep understanding of dairy markets. My conclusion is that the dominant factor driving the depression of barrel prices relative to block cheese prices has been the increase in barrel-manufacturing capacity in several cheese plants in Minnesota, Texas and Wisconsin, commissioned in a short time span. A contributing factor has been volatility in cheese export volumes and lack of robust growth in domestic processed cheese sales. As the old saying goes, “low prices are the best cure for low prices.”

Over the past few years, several manufacturers of barrel cheese have added flexibility to produce block cheese or have otherwise diversified. To my knowledge, there are currently no new barrel cheese plant investments announced, and no barrel cheese plant expansions either. In contrast, there are several large block cheese plant projects currently under construction, expected to be commissioned in 2024-2025 period. I estimate that the volume of new block cheese that will be brought to market in 2025 will substantially outpace the typical annual domestic increase in cheese demand due to population growth and per capita increases in consumption. Block-barrel spread may very well invert in 2025 because of the growth in supply of block cheese.

Some proponents of the elimination of barrel cheese from the protein formula may believe that such regulatory change would lead to barrel cheese being priced off block cheese, but I find such expectations not well reasoned. Even if NDPSR stops reporting barrel cheese prices and volumes, the CME Group spot barrel market will continue. Even if CME Group were to decide to discontinue the spot barrel market, which I hold to be highly unlikely, it would likely be a matter of weeks before another exchange would re-establish such a market. For example, NUI Markets – a digital trading platform company – has recently established presence in the U.S. market and a growing number of cheese manufacturers use their solutions for selling dairy products.

Further, once fixed costs in processing flexibility are incurred and sales strategies have adjusted, cheese manufacturers who can make either blocks or barrels will react to profitable opportunities to reduce the spread between blocks and barrels by altering their production schedules. Therefore, I expect that any deviations in block-barrel spread from long-term average to be shorter lived in future years than was the case in 2017-2021 period.

Returning to fundamental principles of end-product-pricing, Edge believes it is fair that manufacturers who make undifferentiated bulk dairy commodities in state-of-the-art facilities, and are pooled, should have normal returns to invested capital. Those manufacturers who invest in differentiated products should be able to enjoy returns on their risk-taking entrepreneurial activities, and what percent of those returns are returned to dairy farmers will depend on relative availability of milk in their milkshed.

Following these principles, Edge holds that protein price should reflect *mostly* the block cheddar cheese market value, as most cheddar cheese is manufactured as blocks. Various experts I consulted believe 70-75% of all cheddar cheese is produced as either 40-lb or 640-lb blocks. However, since a larger percent of block cheddar cheese does not qualify for inclusion in the NDPSR survey, barrels have a weight that is disproportionate with their true market share in the cheddar market. AFBF attempts to resolve this problem by expanding the range of cheddar cheese formats to be included in the survey. That proposal has sufficient merit to be closely considered. However, Edge believes there is a better way to address this problem, a solution that does not suffer the complications identified in Mr. Brown's testimony.

### **New protocol within NDPSR**

The protocol we are proposing is the following:

Step 1: Expand NDPSR survey to capture the production of *all* barrel cheddar cheese, even if such cheese is forward priced, reduced fat, high moisture, or for some other reason excluded from the Dairy Products Mandatory Pricing Reporting (DPMRP). The purpose of capturing such 'excluded' barrel volume is not to modify monthly weighted-average announced barrel cheese price, but to determine the accurate annual volume of barrel cheddar cheese produced nationwide. Weekly sales volume as currently reported, and with no change to specifications, would continue to be used for calculation of monthly weighted average 500-Pound Barrel Cheese Price.

Step 2: Determine the relative weight (%) that barrel cheddar cheese will have for calculating monthly announced cheese price by dividing the total annual barrel cheese production volume calculated in the prior step by total U.S. cheddar cheese production reported by NASS, and round that ratio to the closest 5%.

Step 3: Announce the weight calculated in step 2 by September 15 for the year following the forthcoming year – at the same time when make allowances and standard milk composition would be announced per Edge recommendations following the principles outlined in this and other testimony.

We illustrate our proposed protocol with an illustration.

On July 30, 2025, AMS issues an NDPSR report with following information for 500-Bound Barrel Cheddar Cheese:

**500-Pound Barrel Cheddar Cheese Prices, Sales and Moisture Content**

United States	5-Jul	12-Jul	19-Jul	26-Jul
	<i>(dollars per pound)</i>			
Weighted Price	1.5591	1.7357	1.8736	1.9124
	<i>(adjusted to 38% moisture)</i>			
Weighted Price	1.4844	1.6544	1.7871	1.8214
	<i>(pounds)</i>			
Sales	13,378,902	11,646,662	10,861,404	11,200,488
Excluded Sales	2,457,728	4,162,562	1,962,237	3,987,675
	<i>(percent)</i>			
Weighted moisture content	34.88	34.95	35.00	34.90

The only addition vs. the current format of the NDPSR report is the line “Excluded Sales” which captures the volume of barrel cheddar cheese sold during the reporting period, but which is not eligible for monthly price calculation because they do not meet the conditions specified in the Dairy Product Mandatory Reporting Program (DPMRP) reporting specifications, e.g. reduced or low fat cheese, 500-pound barrels with moisture content more than 37.7%, et cetera.

For the months August 2024 through July 2025, AMS establishes that the sum of weekly 500-pound Barrel Cheddar Cheese Sales and Excluded Sales equals to 891,932,271 pounds. Based on NASS Dairy Products report, as published through September 2025, AMS establishes that the estimated total cheddar cheese sales for August 2024 through July 2025 equaled 4,062,834,000 pounds. Dividing the 500-pound barrel sales by the total cheddar production and rounding to the closest 5% increment:

$$2027 \text{ NDPSR } 500\text{-Pound Barrel Cheese Sales Weight} \\ = \text{ROUND}(891,932,271 / 4,062,834,000 \times 5, 0) / 5 \times 100\% = 20\%$$

On or before September 15, 2025, AMS announces that for the purpose of weighing block and barrel prices for calculation of monthly announced cheese price for months in calendar year 2027, the 500-Pound Barrel Cheese Sales Weight will be set at 20%.

Until such time as a full year of data of Excluded Sales can be calculated, AMS should use only reported weights under the current methodology. Edge recommends that the first calendar year for which the new methodology is reported be 2026.

## **Impact on Risk Management**

This protocol would facilitate risk management by barrel cheese makers, while reducing the oversized influence of barrel cheese price dynamics on announced cheese price.

Barrel cheese makers would be able to use the existing CME cheese futures contracts to protect against rise in barrel cheese prices. CME currently offers all-cheese contract and block cheese contract, each with a contract size of 20,000 pounds. Assume that Step 2 resulted in the weight assigned to barrel cheese of 25%. A seller of barrel cheese can infer the implied futures price for barrel cheese by considering the futures quotes for block cheese and all-cheese futures.

$$\text{All-cheese Price} = \frac{3}{4} \times \text{Block Cheese Price} + \frac{1}{4} \times \text{Barrel Cheese Price.}$$

$$\text{Barrel Cheese Price} = 4 \times \text{All-Cheese Price} - 3 \text{ Block Cheese Price.}$$

If barrel cheese price decreases faster than block cheese price, then all-cheese price will decrease faster than block cheese price. It follows that a barrel cheese manufacturer can protect against a drop in barrel cheese prices by selling four (4) all-cheese futures contracts and buying three (3) block cheese price contracts.

Similarly, if the barrel price weight is announced by AMS to be 20%, then a barrel cheese maker can sell five (5) all-cheese futures and buy four (4) block cheese futures contracts to protect against a drop in barrel cheese price.

Having a spread-based strategy to protect against the drop in barrel cheese prices would also help dairy producers not pooled on any milk marketing orders who get paid based on barrel cheese price through cheese yield-based milk pricing formulas.

While proposals to include 640-lb block cheese in the survey are well-meaning, Edge believes that such inclusion would produce essentially the same result in terms of reducing barrel cheese weight as our suggestion, while unnecessarily introducing basis risk for barrel cheese manufacturers as weights would not be known in advance, and 40-lb block-cheese futures would not precisely capture 640-lb impact on all-cheese price futures.

## **Concluding comments**

In conclusion, rather than eliminating barrels from the NDPSR survey, adding 640-lb block cheese, or preserving the status quo, we propose a reform that would appropriately reduce the weight the barrel cheese has on final announced cheese price based, improve risk management for both barrel manufacturers, buyers and dairy producers. Edge Dairy Farmer Cooperative thanks Secretary Vilsack and the Department for the opportunity to testify at the hearing on this topic.