

**TESTIMONY OF THE INTERNATIONAL DAIRY FOODS ASSOCIATION WITH
RESPECT TO SURVEYED COMMODITY PRODUCT PROPOSAL 4
AUGUST-SEPTEMBER 2023 FEDERAL MILK ORDER HEARINGS
DOCKET NO. 23-J-0067; AMS-DA-0031**

This testimony is submitted on behalf of the International Dairy Foods Association (IDFA) with respect to Proposal 4. This Proposal would add 640-pound cheddar cheese blocks to the commodity products that are surveyed as part of the formula for setting minimum milk prices.

IDFA represents the nation's dairy manufacturing and marketing industry, which supports more than 3.2 million jobs that generate \$49 billion in direct wages and \$794 billion in overall economic impact. IDFA's diverse membership ranges from multinational organizations to single-plant companies, from dairy companies and cooperatives to food retailers and suppliers, all on the cutting edge of innovation and sustainable business practices. Together, they represent milk, cheese, ice cream, yogurt and cultured products, and dairy ingredients produced and marketed in the United States and sold throughout the world.

As buyers and processors of milk, the members of IDFA have a critical interest in these hearings. Most of the milk bought and handled by IDFA members is purchased under the Federal milk marketing orders promulgated pursuant to the Agricultural Marketing Agreement Act of 1937 (the "AMAA").

I am Mike Brown, Chief Economist for IDFA since January 2023. I have testified on other proposals earlier in this hearing, and at that time described my professional and educational background. My testimony now will address Proposal 4.

Since January 2000, federal milk marketing orders have utilized the price of finished products to determine the minimum milk prices that must be paid to farmers, through a mechanism commonly referred to as a "product price formula." Oversimplifying slightly, a product price formula sets the minimum price that farmers must be paid for their milk (at least by proprietary handlers) as the price handlers receive for their finished products (cheddar cheese, dry whey, butter and nonfat dry milk) minus the costs handlers incur in turning farm milk into those finished products (commonly referred to as the "cost of manufacture" or the "make allowance"). In performing this calculation, USDA must make assumptions as to how much of the finished products can be made from a given quantity of milk (the "yield factors").

Accordingly, step one in the formulas by which USDA sets minimum price for milk used to make Class III and IV products starts with a survey of the price paid for specified manufactured dairy products. Proposal 4 would change that step in the process, by adding a new product, 640-pound blocks, to the products whose prices are included in the price surveys.

For the reasons I will now explain, Proposal 4 should be rejected.

Class III products consist principally of cream cheese and other spreadable cheeses, and hard cheese of types that may be shredded, grated, or crumbled. 7 C.F.R. 1000.40(c). In order to set the protein price component of the price of milk used to make Class III products, the orders since 2000 have in step one relied upon the weighted average of the U.S. average price for 40-lb. block cheddar cheese and the U.S. average price for 500-pound barrel cheddar cheese (38 percent moisture). 7 C.F.R. 1000.50(n)(1). These prices are obtained through a survey of: (i) the National Dairy

Products Sales Report (NDPSR) of prices paid for 40-lb. block cheddar cheese; and (ii) the NDPSR for prices paid for 500-pound barrel cheddar cheese (38 percent moisture). *Id.* To be included in these Sales Reports, cheese must meet various criteria, including age (no less than 4 days or more than 30 days on the date of sale); color (within a specified color range for 40-pound blocks; white for 500-pound barrels); and moisture content (no more than 37.7% moisture for 500-pound barrels). 7 C.F.R. 1170.8(a).

Proposal 4 would add 640-pound cheddar cheese blocks to the protein price formula used to price milk used to make cheese.

Whether 640-pound blocks should be included in the survey used to set minimum milk prices is a question USDA has previously addressed and resolved. When USDA in 2000 held hearings in response to a Congressional mandate to reconsider the Class III and Class IV pricing formulas included in the 1999 final rule for the consolidation and reform of Federal milk orders, a proposal was advanced to include 640-pound blocks in the survey. USDA, Milk in the Northeast and Other Marketing Areas; Tentative Decision on Proposed Amendments and Opportunity To File Written Exceptions to Tentative Marketing Agreements and to Orders. 65 FR 76832, 76845 (Dec. 7, 2000). USDA agreed with the opponents' position that "the vast majority of 640's are made on a custom basis to customers' specifications, and therefore are not sufficiently uniform to have a standard identity." *Id.* And, "[w]ithout a standard identity for the product, standardized pricing cannot be developed." *Id.* Furthermore, the product was not traded on the exchange. *Id.*

As noted in my testimony regarding Proposal 3, USDA's current pricing formulas reply upon very substantial sales volumes to determine the market price of cheddar

cheese. The price surveys encompassed well over 1.34 billion pounds of sales in 2022, divided almost evenly between 40-pound blocks and 500-pound barrels. This robust data set is more than sufficient to determine prices in the market. 640-pound blocks are not needed to fill any information gap.

Indeed, 640-pound blocks typically trade off the price of 40-pounds blocks, and therefore bring little if any additional information to bear. Furthermore, only certain facilities are set up to purchase and handle 640-pound blocks, so the market for them is much thinner.

Furthermore, 40-pound blocks and 500-pound barrels are both traded on the Chicago Mercantile Exchange (CME), while 640-pound blocks are not. The absence of a public market makes 640-pound blocks unsuitable for determining actual market prices.

In addition, as was the case in 2000, there is no standard of identity for 640-pound blocks. They are more of a made to order product. Just as in 2000, the absence of uniformity make it impossible as a practical matter to determine a uniform price.

For these reasons, Proposal 4 should not be adopted.