

**TESTIMONY OF AMPI REGARDING
SURVEYED COMMODITY PRODUCT PROPOSAL 3
AUGUST-SEPTEMBER 2023 FEDERAL MILK ORDER HEARINGS
DOCKET NO. 23-J-0067; AMS-DA-0031**

I am Steve Schlagen, a dairy farmer from Albany, Minn., and chairman of the Associated Milk Producers Inc. Board of Directors. My comments are on behalf of 800 fellow dairy farmer-owners and focus on our cooperative priority of updating make allowances to reflect the cost of processing milk into dairy products.

For context, a bit about my farm and the cooperative in which I'm an owner.

My wife Cheryl and I milk 60 cows with a robotic milker and farm 200 acres. We began our dairy farming career in 1986, buying a small herd of cows and renting the barn on the farm we now own. AMPI was there to help when we first got started, and we've been members ever since.

The co-op is headquartered in New Ulm, Minn., and owned by dairy farm families from Wisconsin, Minnesota, Iowa, Nebraska, South Dakota and North Dakota. We are the largest farmer-owned cheese cooperative in the U.S.

Our cheese, butter and powdered dairy products are produced at eight manufacturing plants located throughout the region and then marketed to foodservice, retail and food ingredient customers.

AMPI opposes proposal 3, which would eliminate the cheddar cheese 500-pound barrel price series from the commodity products that are surveyed as part of Class III protein formula used for setting the minimum Class III milk price. As both a block and barrel cheddar manufacturer, AMPI recognizes the unstable relationship between block and barrel prices in Class III has caused a variety of problems for the industry. We believe, however, eliminating barrels will create more volatility for barrel manufacturers and compromise their competitive position for milk.

Moving Class III to a 100% block weighting would complicate milk pricing for manufacturers making barrel cheese. Barrels produced in the U.S. are almost always priced based on the CME spot barrel price, while Proposal 3 would essentially disconnect Class III milk pricing from the CME barrel price. The resulting disconnect between revenue and the Class III milk price could increase margin volatility and the ability to compete for milk.

AMPI competes for sales with barrel manufacturers operating both inside and outside the Federal Orders. Unregulated manufacturers must still compete with other manufacturers for milk in their local markets, but their profitability will not be directly impacted by regulated minimum prices, — just market competition for milk.

Supporters of removing barrels from the NDPSR cheese price — including some Midwest barrel manufacturers — believe the market price for barrels could move to a block basis. Removing barrels from the NDPSR cheese price by no means guarantees the CME will remove the barrel cheddar spot market from its daily market offerings. The CME makes changes to its market offerings based on market demand, and there is no reason to expect barrel manufacturers and buyers will agree to shift their pricing to the block market. Barrel Buyers will want to be assured their costs are aligned with the commodity market for barrel cheese. Using the barrel cash market as a pricing reference point provides that assurance.

AMPI believes the primary reason to continue including blocks and barrels in the NDPSR cheese price is that both have comprised the total supply and demand picture for cheddar cheese. They are traded commodities at CME cash markets, and thus have an openly traded market to determine value. Combined, they provide a picture of the commodity cheddar market. AMPI is a major manufacturer of both block and barrel cheddar and believes a combination of the two provides the best indicator of overall market conditions.

AMPI recognizes there has been growth in barrel capacity in the Midwest over the past few years. Some barrel processors added the capability to make block cheddar to best meet market demand for the variety of products they make. This capacity has been needed in a year like

2023, where milk supplies in some markets — particularly the Upper Midwest — exceeded processing capacity. It is hard to view capacity of any type of cheese as “surplus” when it was needed to clear markets of excess milk.