INTERNATIONAL DAIRY FOODS ASSOCIATION TESTIMONY IN OPPOSITION TO SELECT MILK PRODUCERS, INC. PROPOSALS 10, 11 and 12.
DOCKET NO. 23-J-0067; AMS-DA-0031

This testimony is submitted on behalf of the International Dairy Foods Association (IDFA) in opposition to Select Milk Producers, Inc. Proposals 10 through 12.

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 fluid milk processors and manufacturers of cheese, milk proteins, ice cream, yogurt, 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. In that role, I lead economic and policy analysis and strategy development related to dairy policy and pricing. I have testified on many occasions in hearings held by USDA to consider amendments to federal milk marketing orders.

I. SUMMARY OF IDFA'S OBJECTIONS TO PROPOSALS 10, 11 AND 12.

IDFA opposes Proposals 10 – 12. These proposals seek to raise the butterfat recovery in the Class III formula, eliminate farm to plant shrink, and change the nonfat solids factor. While Select Milk Producers has supplied some internal data in support of these proposals, USDA does not have the benefit of any broader industry or USDA studies relevant to the consideration of these proposals.

When examined, it becomes clear that the proposals would require pool handlers to pay for butterfat that cannot be uniformly recovered or valued at the Grade AA price; pay for milk that may not actually be received in the cheese vat for manufacture; and for nonfat solids presumes a theoretical, rather than real world system where there are no losses before or after the conversion of solids nonfat into nonfat dry milk. Further, the proposals choose to update only factors that are revenue enhancing and ignore others, like the current, overstated whey cream valuation in cheesemaking.

Select estimates the added revenue from these changes totals \$0.12 - \$0.13 per cwt to the Class III price and \$0.41 to \$0.42 per cwt to the Class IV price). But yield factors should not be addressed piecemeal, but rather in a more holistic fashion, examining all factors that impact product yields, including factors not discussed in the proposals that counter-balance Select's chosen factors for evaluation. The proposals should be denied.

II. HOW PROPOSALS 10, 11 AND 2 WOULD OPERATE.

A. Proposal 10 Would Increase Butterfat Recovery in the Class III Formula to 93 percent.

Proposal 10 would increase the butterfat recovery factor in the Class III formula to 93%, which results in a corresponding increase in the butterfat yield in cheese to 1.624. According to Select's analysis, adoption of this proposal would have increased the Class III price by \$0.04/per cwt as compared to both a five and ten year average.

B. Proposal 11 Would Update Specified Yield Factors to Eliminate Farm-to-Plant Shrink.

Proposal 11 would update the yield factors for butterfat to 1.22, for the protein value in cheese to 1.386, and for the butterfat value in cheese to 1.582. Select asserts that the yield factors for nonfat solids and other solids remain unchanged due to rounding.

C. Proposal 12 Would Update the Nonfat Solids Factor From 0.99 to 1.03.

Proposal 12 would replace the current nonfat solids yield factor of 0.99 with 1.03. According to Select's analysis, adoption of this proposal would have increased the Class IV price from $0.35 to $0.36/per cwt as compared to both a five and ten year average.

D. Select Milk Proposals 10-12 Are Taking a Piecemeal Rather Than a Comprehensive Approach to Formula Yield Changes.

Unlike multiple studies over the past several decades that collected data from multiple different manufacturing facilities, owned by many different companies, with respect to the costs of manufacture, for purposes of setting make allowances, Select presents no such studies with respect to its yield assumptions and losses, both before and after plant receipt and throughout the production process. Instead, Select simply relies upon its own internal data regarding its own facilities.

IDFA supports maintaining the status quo until a much broader based plant study is completed that establish real world yields, shrinkage, and dairy solids recovery, including values for that recovery. There are many complicated issues including fat recovery, plant loss, and other factors across the dairy industry. Studies will need to take into account plant ages, investments, and processing techniques. USDA should first conduct comprehensive reviews of the product yield assumptions and losses. This would facilitate making yield adjustments in a comprehensive, rather than piecemeal fashion.

E. The Proposals Selectively Focus Only on Revenue Enhancing Elements of the Yield Formulas.

Related to the lack of any industry studies is the fact that Select has focused on dairy farmer revenue enhancements, excluding other considerations. For example, today's Class III formula presumes that all excess fat from cheese manufacturing is successfully recovered – 90% in the cheese with the remaining 10% ending up in the whey but valued as sweet cream. This presumption ignores the reality that (a) every manufacturing system incurs losses, in the form of lost milk solids, and (b) whey cream does not have the same value as sweet cream, despite the wishes of all cheese makers to the contrary. Regardless of plant efficiency and full tanker loads, many in industry, especially in the Upper Midwest and the Northeast, do not achieve full tanker loads. Furthermore, unlike Select's assumption of no farm to plant loss, It is likely that some purchased milk solids are lost in that transportation, and data from all types of farms needs to be included in any analysis that would change the current assumption of farm to plant loss.

We expect these type of yield studies can be accomplished through the widely supported surveys for inclusion in the upcoming Farm Bill.

Simply put, proposals 10 through 12 incorrectly assume that after applying the yield formulas to milk processing, there is no need to account for other losses that occur throughout the process from farm to finished product.

F. Proponents' Experience Is Not Indicative of Broader Industry Experience.

Select is known for its innovative approaches and very large farms that likely generate more efficient results and lower losses than are found industrywide. Just as with make allowances, it is critical that AMS examine yields across the entire dairy industry, recognizing that others do not experience the same efficiencies, and likely experience greater losses. And it costs money to achieve many of those efficiencies, which in turn impacts plant costs, although we acknowledge that there would also be an adjustment for per-pound product costs resulting from those investments.

III. PROPOSAL 10's SPECIFIC FLAWS.

In addition to the overall flaws applied to all of Select's proposals, the 93% butterfat recovery proposal assumes: (1) that higher fat capture has been implemented by everyone; and (2) that all the butterfat recovered has equal value. Without the new yield studies mentioned above, there is no way for USDA to conclude that the first point is accurate. As to the value of butterfat, the butter not going into cheese is valued under the current formula at Grade AA butter even though USDA by regulation assigns such butterfat (known as whey cream) to Grade B butter.[1] With 20% or greater discounts on whey cream compared to fresh cream, the Class III fat assigned to whey cream is simply over-valued under the current formula. This is in addition to in-plant losses of milk fat during processing, which the current formula does not recognize. These defects would need to be fixed as part of any revision to current formula yield factors.

Select seeks an increase in Class III prices in proposals 10 and 11 of approximately $0.12 per cwt. But they fail to recognize the greater, more than offsetting decreases that would result from accurately accounting for both processing losses and whey cream values.

[1] 7 C.F.R. § 58.2627(c) and Table I.

IV. PROPOSAL 11's SPECIFIC FLAWS.

As with the butterfat recovery issue, proposal 11 also assumes there is no farm to plant shrink. FMMOs price milk based on components and volumes measured at the farm, but losses occur prior to delivery to our member plants. Select again may be an industry leader in reducing farm to plant loss, but AMS should not base yield factors on one company's experience, especially given the fact that Select's dairy farmer members are large enough that they can and do deliver full tanker loads of milk, reducing the risk of leakage from farm tank to plant silo. But less than 10% of all farms produce enough milk to fill tanker loads of milk, meaning the vast majority of trucks hauling milk are still delivering multiple loads of milk. It is therefore reasonable to conclude that the losses experienced when the formulas were adopted are still happening today.

Failure to account for the diversity of farm size and the implications for farm to plant loss based upon less than full tanker loads of milk would further incentivize manufacturers to prefer large farms over smaller farms. The implications to USDA's necessary small business regulatory analysis we leave to USDA, but it appears to be detrimental to smaller farms and the rural communities that depend on those farms. As discussed in IDFA member testimony, fat clings to stainless tankers just the same today as it did when the formulas were last updated. Again, milksheds dominated by smaller farms continue to experience larger loss of fat as a result. Proposal 11 assumes away farm to plant losses in both solids and fat. Until AMS conducts studies of these issues, the proposals should not be adopted.

V. PROPOSAL 12's SPECIFIC FLAWS.

Proposal 12 would treat solids non-fat ("SNF") in NFDM pricing formula the same as proposed for cheese – a theoretical yield approach relying on a perfect loss less system. This is not true even with the most modern and efficient facilities, let alone average plants, often today operating without the margin necessary to make the investments that would be industry leading. As just one example, after cream separation, some portion of the SNF remains together with the butterfat and water. That lost SNF cannot then be processed into NFDM, and nearly all cream is priced on a multiple of the butter market, with no direct value assigned to the skim solids in cream. Overvaluing the volume of SNF and thus NFDM that can be manufactured will overvalue and overprice the NFDM that is market clearing and contribute to disorderly marketing.

VI. CONCLUSION.

Adoption of Select's proposals would at best be premature before widely supported AMS studies are conducted, and likely would be a step backwards because only producer revenue enhancing factors are examined. This could overstate the impact of any yield changes. Indeed, a comprehensive review would likely result in revised yields factors that subtract from, not add to, dairy farmer revenue.