

Testimony Regarding Proposal 19  
January 2024

**Introduction -**

- My name is Steve Galbraith, I am the Vice President of Procurement and Commodity Risk Management at Saputo Cheese USA. I have held this position since April 2013.
- I work out of Saputo's Dallas office located at 2711 N Haskell, Suite 3700 Dallas Texas, 75204
- Saputo operates 29 plants in 13 states across the United States, manufacturing and packaging a variety of cheeses, cultured dairy products, whey ingredients, extended shelf-life and aseptic dairy products.
- Saputo is among the top 3 cheese manufacturers and one of the largest producers of extended shelf-life fluid products in the US.
- Saputo routinely sources milk, cream, and condensed dairy products from 10 of the 11 Federal Milk Marketing Orders as well as unregulated regions of the western US. We buy approximately 3,400 loads of milk and 250 loads of cream per week. The vast majority of the milk we buy is priced based on the Class II and Class III formulas.
- Saputo plants process milk that is pooled in seven of the Federal Milk Marketing Orders. Most of the milk Saputo buys is regulated by the Federal order system. Saputo pays for milk according to each of the Class I, Class II, Class III and Class IV formulas.
- Consequently, Saputo may be greatly impacted by the results of the hearing and any resulting changes to the milk pricing system.

I testified at a hearing on August 30, 2023, where I provided my background and experience in the dairy industry. Unless requested to do so, I will not repeat my resume.

I testify today in opposition to Proposal #19 (Increase in Class 1 Differentials),

**Position – Proposal #19**

First, I would like to comment on the potential impact of increasing the Class I Differentials in a category that has seen an annual average decline of 2%, over 20% cumulatively from 2010.

- In previous testimony by Mike Brown, it was noted that *“the current supply of milk greatly exceeds, by any measure, the amount necessary to satisfy fluid needs. There is no justification to increase Class I differentials and stimulating a larger milk supply given the presence of an already far more than adequate milk supply”*. I would agree with that position as well.
- Choosing to raise prices for any product category that is experiencing steadily declining volume has not proven to be a recipe for growth due to some of the following potential outcomes –
  - Mandating higher Class I differentials would reduce the price difference between Class I milk and plant-based beverages. This narrowed price difference may incent some consumers to try, and ultimately switch to, plant-based beverages, resulting in further Class I milk volume decline. (Gap remains wide)
  - Continued lower milk volume will drive a change in the fluid milk distribution model, from primarily DSD (Direct Store Delivery) to delivery through distribution centers. Delivery through distribution centers with longer supply chains will require ESL (extended shelf life) milk processing which comes at a higher cost. The move to more ESL processing will result in less HTST processing.
  - Over the past decade, some HTST manufacturing plants who shuttered their doors and had cultured production (Cottage Cheese/Sour Cream) associated with them were forced to consolidate that cultured production into centralized facilities further away from customers. These categories remain popular,

and if more HTST plants close, any associated cultured production capacity will need to be replaced. As that transition is likely to continue, additional cost to consumers will be required.

- The loss of Class I consumption reduces milk demand overall. If farmers continue to increase production, that excess milk supply may ultimately find its way into Class III and Class IV products. Continued excess supply due to declining Class I demand will depress prices in the Class III and Class IV categories. Reducing the value of Class III is not in the best interest of producers or processors.
- To summarize what I am saying, we have added cost to the Class I category over the past several decades with consolidation and increased miles on our products. Adding additional costs will not continue to grow the category. I have spent the last 40 years working to build brands and create consumer value. I have never seen structural increases in costs and/or prices be a path that achieves either objective.

**Saputo-Specific Impact of Proposal #19 -**

Saputo operates Class I manufacturing plants across the United States, with the exception of the Rocky Mountains and the Pacific Northwest. At times, we struggle to get milk to certain Saputo facilities that are not located in the traditional “milk sheds”. The marketplace has a mechanism that helps us get milk to where we need it, when we need it by paying a larger over-order premium. The over-order premium is not promulgated nor implemented through regulatory means. Higher proposed regulatory costs, such as higher Class I Differentials, will not change the relationship between the “hard to get to” milk locations and the milk surplus areas. It has the potential to increase inefficiencies between those locations and make processing milk in those “hard to get to” locations even more expensive.

- Proposal #19 pushes the Class I Differentials in Saputo’s FMMO #7 facility up from \$2.70/cwt. to \$4.60/cwt. (an increase of \$1.90/cwt.). Saputo’s Class I Differentials in FMMO #51 facilities would move up from \$1.70/cwt. to \$2.50/cwt. (an increase of \$.80/cwt.).
- Saputo manufactures Class I value added milk (ESL) and distributes across several states. Proposal #19 puts the facilities in FMMO #7 at a greater cost disadvantage compared to the west coast.
- The same logic applies for facilities in FMMO #1 and FMMO #30 when compared to other FMMO – see below.

The free market and the use of over-order premiums will help bring milk production closer to the demand. Proposal #19 has the potential to move production to alternate locations, or worse yet, drive the cost high enough to reduce overall demand.

Location	FMMO #	Current Class I Differential	Proposed #19 Class I Differential	Difference
Saputo, Gustine	51	\$1.70	\$2.50	\$0.80
Saputo, Newington	1	\$3.15	\$5.00	\$1.85
Saputo, Plant City	6	\$5.40	\$7.30	\$1.90
Saputo, Murray	7	\$2.70	\$4.60	\$1.90
Saputo, White Bear Lake	30	\$1.70	\$3.00	\$1.30
Saputo, Friendship	NR	\$2.30	\$4.00	\$1.70
Saputo, Delhi	1	\$2.70	\$4.40	\$1.70
Saputo, Sulphur Springs	126	\$3.00	\$4.35	\$1.35

Creating value in the minds of the consumers is the most effect way to increase revenue in the dairy industry. A great example of this is in the cream market and the continued increase in cream multiples over the past several years. Not only have butter prices maintained an historic high price, but cream multiples have also continued to increase over the years as manufacturers strive to secure supply to make products for a growing dairy category. Due to this increased

consumer demand, COOP “Agencies” can increase cream multiples in the marketplace. This same story needs to be repeated in the minds of the consumers relative to skim solids and the various formats in which they can be delivered to the consumer. Increased regulation and regulation mandating higher prices will not resurrect a category that has been declining for over 50 years. The best solution is to build value in the mind of the American, and global, consumer.