



Opposition Testimony (Proposal Number 5)

Testimony Presented By:

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This testimony is presented on behalf of California Dairies, Inc., hereafter CDI, and is submitted in opposition of Proposal Number 5.

My name is Rob Vandenheuvel, and I am Senior Vice President of Member and Industry Relations for CDI, headquartered at 2000 North Plaza Avenue, Visalia, CA 93291. CDI is a Capper-Volstead cooperative association qualified to market milk on Federal Milk Marketing Orders, hereafter FMMOs, is a member of National Milk Producers Federation, hereafter NMPF, and opposes Proposal Number 5. I also serve on NMPF's Executive Committee, Economic Policy Committee, and Federal Order Task Force.

CDI is co-owned by 258 member-owners, operating 297 member farms, all within the state of California. Our member farms produced 17.1 billion pounds of milk in 2022, or 41 percent of California's total production. Of that total, 10.3 billion pounds, or 60.6 percent, was received and processed at one of six CDI-owned manufacturing facilities, while the other 6.7 billion pounds, or 39.4 percent, was sold as bulk raw milk to dairy product processors throughout the State. Among the products produced by CDI-owned manufacturing facilities, butter and milk powder are a vast majority, as four of our six facilities produce butter and all six facilities produce milk powders. CDI also produces a range of processed fluids that are marketed in bulk to customers primarily in the Western United States.

FMMO PRICE DISCOVERY

In setting monthly minimum milk prices, the issue of how to conduct price discovery is important, as evidenced by the multiple proposals in this hearing to address that very issue. Specific to butter, that price discovery mechanism is currently the butter price as reported by the National Dairy Products Sales Report, or NDPSR, under USDA's Dairy Product Mandatory Reporting regulation. This includes the reporting of sales prices and volumes for salted butter with 80 percent butterfat in 25-kilogram and 68-pound packaging.

These specifications under the NDPSR match the requirements for butter eligible to be sold at the Chicago Mercantile Exchange, or CME, spot market. While access to an available spot market at the CME is not a legal requirement, it is worth noting that such access is available across all the other current products that are used to set minimum milk prices under the FMMO.

INAPPROPRIATE TO INCLUDE UNSALTED BUTTER

Proposal Number 5, submitted by American Farm Bureau Federation, or AFBF, aims to fix something that is not actually broken. The reported price, whether from the CME or the NDPSR, of salted bulk butter with 80 percent butterfat has been and continues to be an industry-wide price index used in the sales and marketing of a vast majority of butter sold in the U.S. That includes different cuts – such as retail or food service – and different varieties – such as salted, unsalted or cultured. The reported price of salted bulk butter is also the basis of a majority of the cream sales in the U.S., as a majority of cream is sold on the basis of a multiple applied against either a recent CME or NDPSR butter price.

AFBF's contention that salted bulk butter is no longer an adequate surrogate butter price on its own is based on data showing that NDPSR butter sales volumes represent a smaller portion of total reported production of all butter in the U.S. than what was seen at the time of Federal Order Reform in 2000, or what was seen ten years ago. I submit that such a comparison is too simplistic to justify a change. The selection and refinement of a price discovery methodology should take multiple factors into consideration, including but not limited to:

1. Is the product viewed by the marketplace and used in the marketplace as an index in pricing other products?
2. Does the product have a widely available market outlet?
3. Can price discovery be achieved by tracking a single product, thereby avoiding potential volatility in the relationship between multiple products?

Salted bulk butter with 80 percent butterfat meets all three of these considerations. Conversely, the addition of unsalted bulk butter does not enhance any of these considerations.

I have already addressed why salted bulk butter meets the first consideration above. With respect to the second consideration – the need for a widely available market outlet allowing for the product to clear the market – there is no comparison between salted and unsalted bulk butter. CDI manufactures both varieties of bulk butter. We produce unsalted bulk butter exclusively for order, while we produce salted bulk butter with any cream we are unable to produce and sell as a retail, food service, or unsalted bulk item. The reason for that is simple: when we need to turn that product into cash and sell it into the marketplace, there is an active market for salted bulk butter, either on or off the CME, as it is still the prominent industrial-use butter in the U.S.

The third consideration above is one that has come to light in a significant way the past few years. The industry has experienced the marketplace volatility that can occur when multiple different products are used to generate a singular commodity reference price for purposes of calculating a minimum monthly price for milk. Specifically, I am referencing the volatility in the relationship between block and barrel cheddar cheese, both of which are currently used in calculating the protein value in the Class III formula. The spread between these two products, which has ranged from a 61 cent per pound premium for blocks to a 20 cent per pound premium for barrels in the past five years, has demonstrated the significant market risk associated with using multiple products in the calculation of a single commodity reference price. This, of course, is an issue that National Milk Producers Federation is seeking to address in Proposal Number 3, which CDI strongly supports.

CONCLUSION

In conclusion, with respect to price discovery for butter in the FMMO price formulas, USDA should deny Proposal Number 5 and maintain the current FMMO methodology that utilizes bulk salted butter with 80 percent butterfat.