

**United States Department of Agriculture
Before The Secretary of Agriculture**

**In re: [Docket No. 23-J-0067; AMS-DA-23-0031]
Milk in the Northeast and Other Marketing Areas**

Hearing beginning August 23, 2023

**Testimony Presented By:
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Representing
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Subject: Surveyed Commodity Products

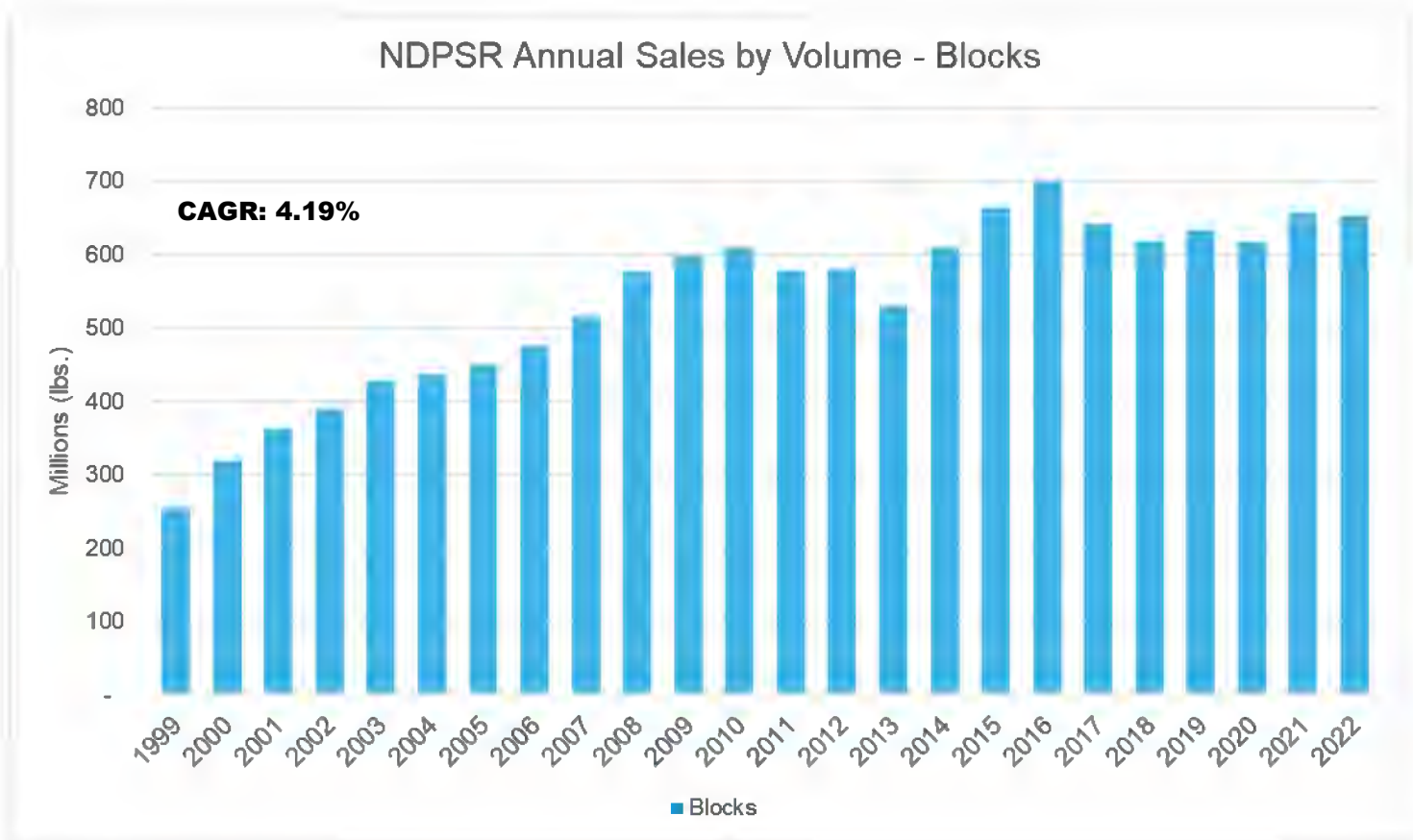
Hello, my name is Emma Downing Reynolds and I work for Dairy Farmers of America, Inc. (DFA), a leading global, farmer-owned milk-marketing cooperative. I first started as an intern with the Cooperative in 2016, working in fluid milk marketing. After receiving a Master of Science in Agricultural and Applied Economics with a Public Policy Analysis emphasis from the University of Missouri, I transitioned into a new fulltime position working on a multitude of projects focused on policy, milk analytics, and strategic initiatives. Today, my role in dairy policy and industry relations provides an opportunity to work directly with our farmer owners, staff across the Cooperative, and a variety of others in the industry.

I am here today representing DFA and the National Milk Producers Federation (NMPF), and I am testifying in support of the USDA Proposal 3, submitted by NMPF, to remove the USDA average survey price for 500-pound barrel cheddar cheese from the computation of the protein price, which falls within the hearing subject area of “2. Surveyed Commodity Products.” The inclusion of the barrel volume is no longer necessary to achieve a representative 40-lb block survey price. Since the price difference between blocks and barrels has diverged, it is no longer practical to convert a barrel price to a block price. Over the last few years as the prices diverged, the Federal Order process of computing the Cheese Price by using 500-lb moisture-adjusted barrel prices have reduced the Class III price – which was not the intent when this survey convention was codified in 2000. The NMPF proposal to delete 500-lb moisture-adjusted barrel cheddar cheese will preserve the intent of USDA to have the protein price based on the 40-lb block price.

As stated in NMPF’s initial proposal, the Class III milk price is derived from calculations of component prices for protein, butterfat, and other solids. The protein component price formula references two survey price series for cheddar cheese submitted by manufacturers through the Dairy Product Mandatory Reporting Program (DPMRP) and reported in the weekly National Dairy Product Sales Report (NDPSR). These are the 40-lb yellow cheddar cheese (block) prices and the 500-pound moisture-adjusted barrel cheddar cheese (barrel) prices 4 to 30 days old. The total cheese price used in the protein price calculation (“Cheese Price”) is the weighted average of the block and the combination of moisture-adjusted barrel price plus \$0.03 per pound. The weighting is derived from the sales volumes reported in the survey.

In *Section II: Discussion of Material Issues and Proposed Amendments to the Orders* from the 2000 Federal Milk Marketing Order Reform document, USDA cited concern over a “thinness” of trading when originally structuring the classified pricing formulas during Federal Milk Marketing Order Reform. The document continued by stating, “many commenters insisted that barrel cheddar cheese prices should be included in a weighted average with block cheddar prices since much more barrel cheese is produced than block cheese”.¹ Given these reservations, block and barrel prices were included to encourage an adequate sample size for the data collected. The decision document reinforces this directive by stating, “including both block and barrel cheese in the price computation increases the sample size by about 150 percent, giving a better representation of the cheese market”.² Chart 1 displays USDA NDPSR block volumes from 1999 and the survey’s sales volume growth since.

Chart 1



Source: USDA AMS, National Dairy Products Sales Report

¹ Milk in the New England and Other Marketing Areas; Decision on Proposed Amendments to Marketing Agreements and to Orders, 64 Fed. Reg. 16,093-98 (Apr. 12, 1999).

² *Id.* at 16,098.

Additionally, the document referenced above states: “[s]ince the make allowance is for block cheese, the barrel cheese price must be adjusted to account for the difference in cost for making block versus barrel cheese. The three cents that is added to barrel cheese price is generally considered to be industry standard cost difference between processing barrel cheese and processing block cheese.”³ The Cheese Price within the Class III formula still applies this same price correction today, over 20 years later.

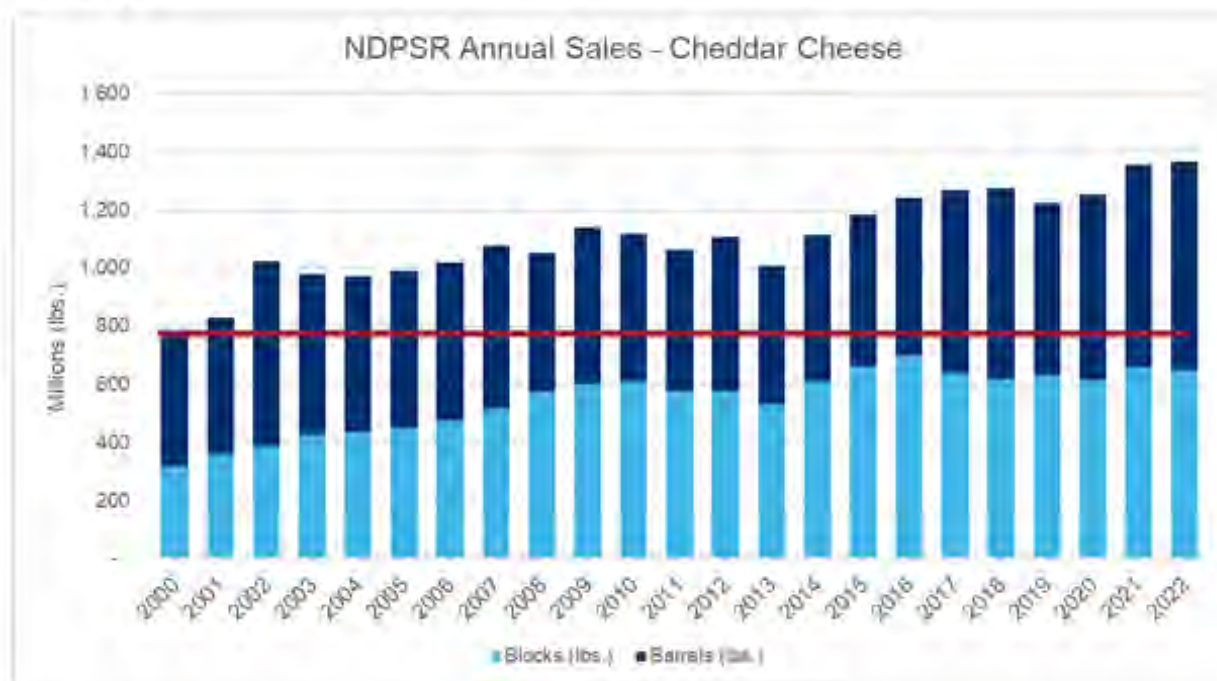
As could be expected, cheese market dynamics have heavily evolved over more than 20 years. Consumer demand is transforming to prefer more natural cheese as opposed processed cheese. Chart 1, displaying block sales volume as reported in the NDPSR, shows continued long-term growth in volume with a compounded annual growth rate of 4.19 percent. In 2022, the NDPSR reported a total block volume of 652,831,270 pounds – **more than two times the volume of 40-lb blocks in the 2000 survey**. In 2000, the combined NDPSR block and barrel sales volumes totaled only 769,707,920 pounds.

Table 1

USDA National Dairy Products Sales Report Annual Cheddar Cheese Sales			
Year	Blocks (lbs.)	Barrels (lbs.)	Total (lbs.)
2000	318,399,759	451,308,161	769,707,920
2001	362,136,264	467,599,248	829,735,512
2002	390,017,180	632,833,172	1,022,850,352
2003	428,160,588	551,396,040	979,556,628
2004	436,047,465	537,793,423	973,840,888
2005	450,319,790	539,763,979	990,083,769
2006	474,119,940	546,750,319	1,020,870,259
2007	515,631,485	562,247,656	1,077,879,141
2008	575,207,979	477,210,573	1,052,418,552
2009	598,364,595	543,489,654	1,141,854,249
2010	609,872,893	506,734,181	1,116,607,074
2011	577,240,122	486,552,823	1,063,792,945
2012	578,825,800	528,967,493	1,107,793,293
2013	531,006,742	478,141,965	1,009,148,707
2014	609,861,028	503,142,333	1,113,003,361
2015	662,607,822	521,823,515	1,184,431,337
2016	698,606,787	542,363,589	1,240,970,376
2017	641,874,857	627,103,244	1,268,978,101
2018	617,492,801	657,150,164	1,274,642,965
2019	632,836,375	592,120,055	1,224,956,430
2020	615,460,370	637,532,677	1,252,993,047
2021	656,716,449	698,073,974	1,354,790,423
2022	652,831,270	713,545,817	1,366,377,087
Grand Total	12,633,638,361	12,803,644,055	25,437,282,416

Source: USDA AMS, National Dairy Products Sales Report

³ *Id.*

Chart 2

Source: USDA, AMS, National Dairy Products Sales

As shown in Table 1 and Chart 2, 2022 NDPSR block sales volume was nearly 85 percent of the combined 2000 block and barrel total. With projected new cheddar cheese capacity coming online within the next five years, the continued growth of NDPSR block sales volumes is expected. Given the growing capacity of block sales volume within the NDPSR, the original reasoning behind inclusion of barrels—the “thinness” of the block market—is no longer valid.

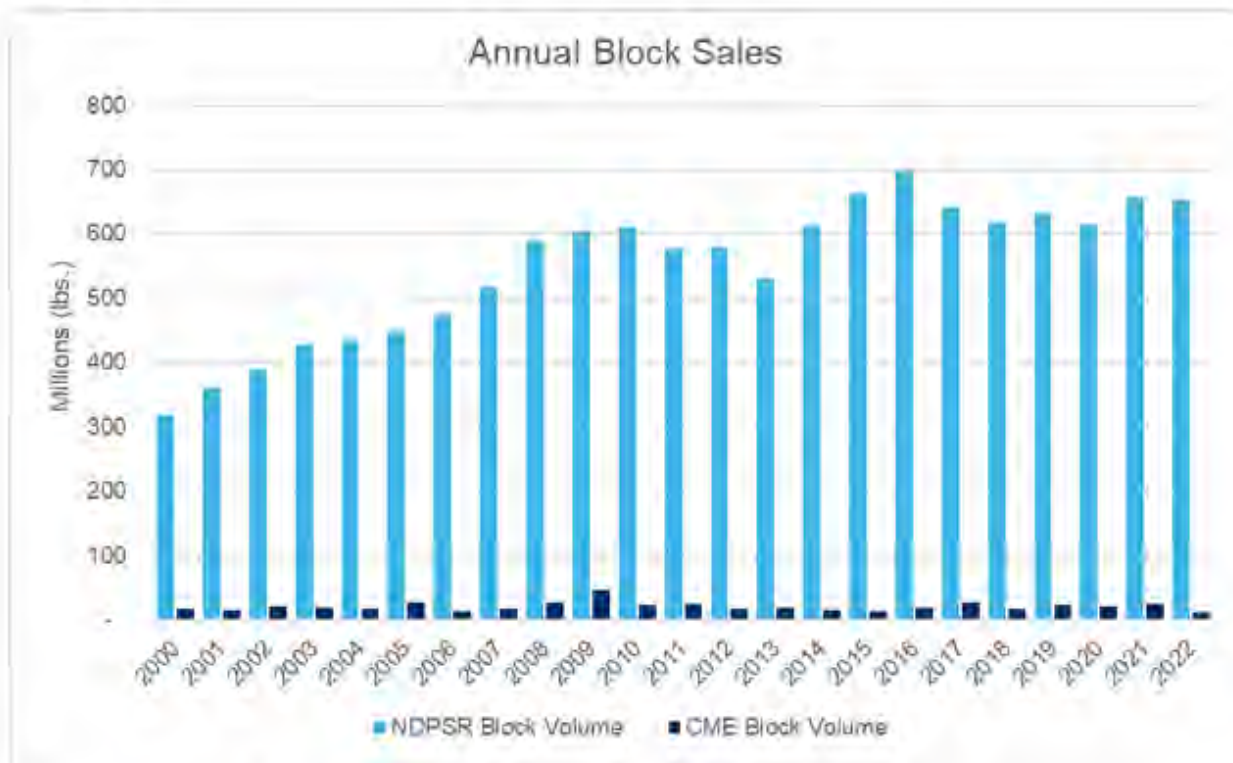
In reference to the American Farm Bureau Federation’s (AFBF) proposal to incorporate 640-lb blocks into the Cheese Price and NDPSR, the information cited above supports the sufficiency of sole inclusion of 40-lb blocks. While AFBF’s participation in this process is appreciated and important, the current, and anticipated future, 40-lb block volume provides an adequate dataset. Also, there is currently public no spot market for 640-lb blocks, making the pricing correlation between 40-lb blocks and 640-lb blocks uncertain. Without available market information confirming prices of 640-lb blocks and 40-lb blocks move together, incorporating 640-lb blocks could promote the same market disparity as currently displayed with 500-lb barrels.

As stated in NMPF’s initial proposal, the CME 40-lb block cheddar price is used as the pricing index for most cheese produced in the United States. Cheddar 40-lb blocks, 640-lb blocks, mozzarella, other American-type cheese, and other types of cheese, including cream cheese and Hispanic cheese, are all typically based off the CME 40-lb block cheddar price. It is estimated that more than 80 percent of the natural cheese market utilizes block pricing. Given the infrequent application of barrel pricing as a price index for the majority of U.S. cheese, the continuance of moisture-adjusted barrel pricing used in the Protein Price calculation, which factors into the Federal Milk Marketing Order Class III price, is not representative of market realities.

While the USDA decision referenced above states that the inclusion of barrels was originally done in effort to ensure adequate sales volumes for cheese, actual cheese buyers and sellers do not require such a high threshold.⁴ The daily CME Group Inc. (CME) cash block cheese market is widely recognized by market participants as heavily influencing the price of cheese across the industry. However, as shown in Chart 3, annual CME block cheese volumes are not as large as compared to NDPSR block volumes.

This suggests that the marketplace acknowledges the CME, even with a smaller sample size than the current NDPSR block volumes, when determining the wholesale pricing for most of the cheese manufactured and sold in the United States. By this comparison, the volume of 40-lb blocks included in the NDPSR survey is more than adequate to determine the cheese price for USDA to use in calculating the USDA Federal Order Protein Price.

Chart 3



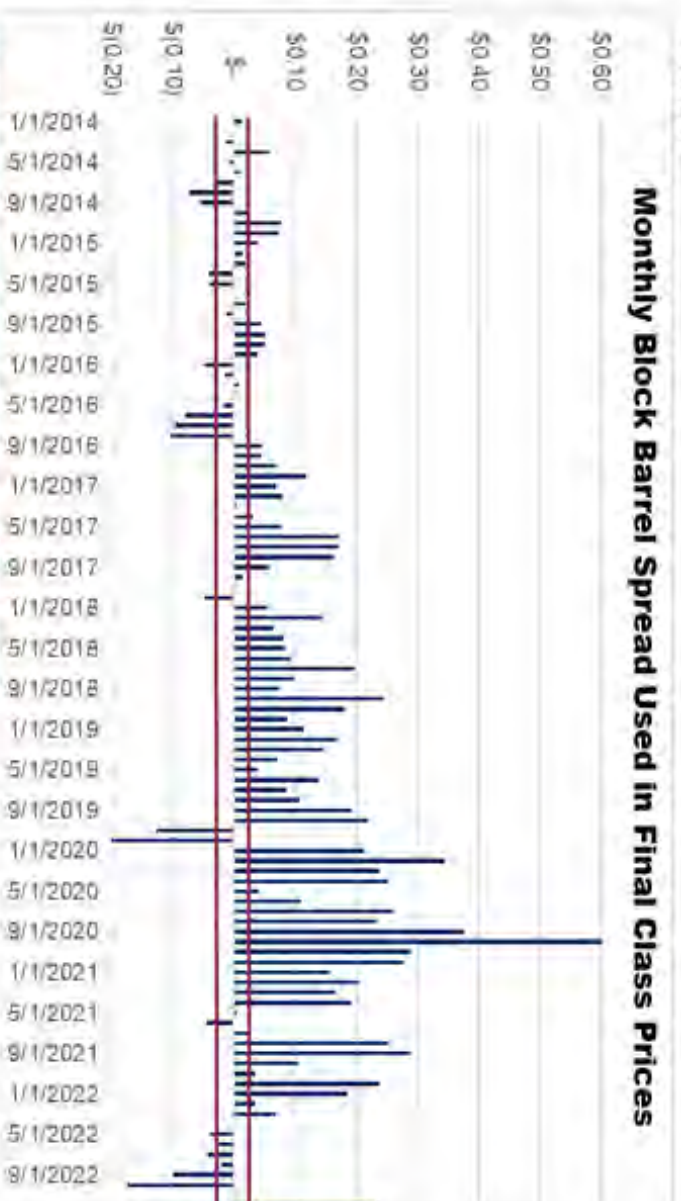
Source: USDA AMS, National Dairy Products Sales Report and CME Group Inc.

⁴ *Id.*

From 2017 to 2022, NDPSR weekly average prices for block and moisture-adjusted barrels showed that blocks were more than \$0.03 per pound greater than barrels an astounding 73 percent of the time. Chart 4 displays the block and barrel spread applied to monthly USDA AMS Announced Class Cheese Price. The two horizontal red lines outline the bounds for \$0.03 per pound and -\$0.03 per pound. The chart shows several large divergences, especially between 2017 to 2022, suggesting the claimed predictable \$0.03 per pound price spread for blocks and barrels no longer applies.

Additionally, Chart 4 exhibits that block prices are greater than barrel prices by more than \$0.03 per pound for many months within the eight-year period analyzed. Given the Cheese Price used for the Class III price is an average of blocks and the combined moisture-adjusted barrels plus \$0.03 per pound, the inclusion of barrels at this time is misaligned with original intent and expectations of the decision document. Because of how the current Cheese Price is structured, when the barrel price consistently trails the block price it results in an unintended decrease in the Cheese Price, which negatively affects the Class III milk price.

Chart 4

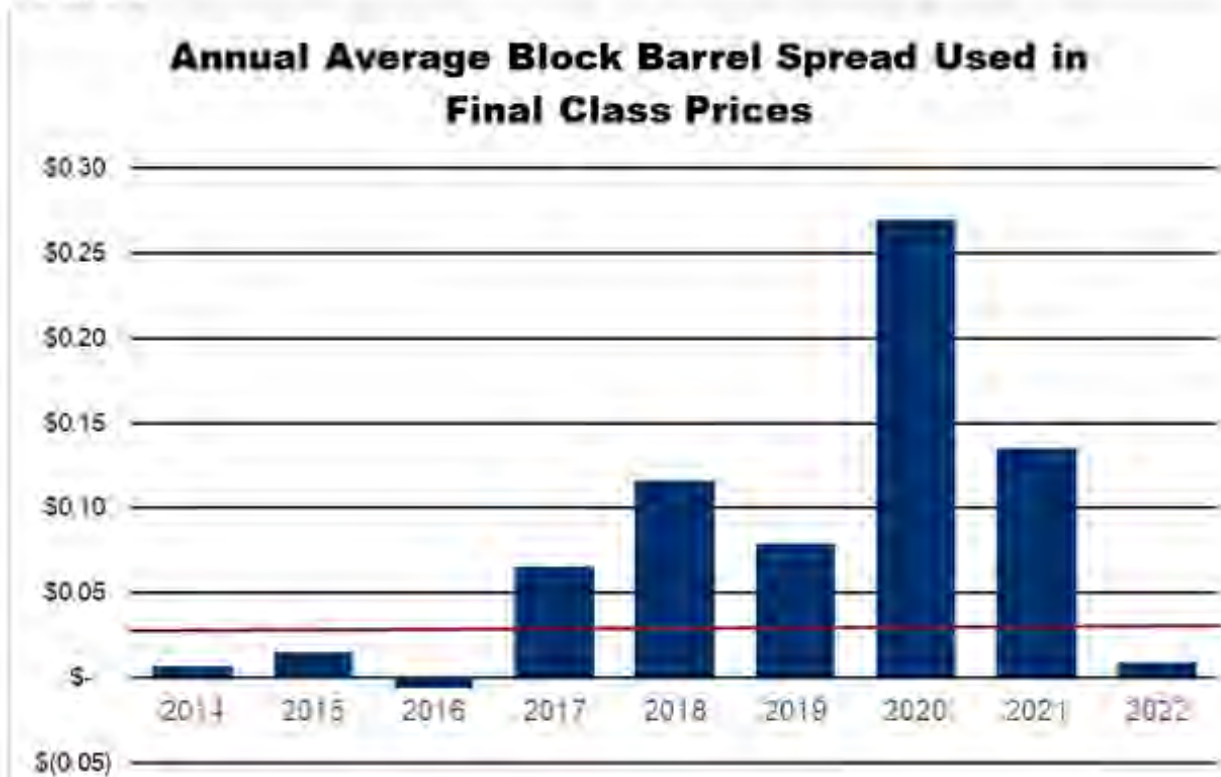


Red horizontal lines represent bounds for (+/-) \$0.03 per pound

Source: USDA AMS, Announced Class Prices

To further highlight this problem, Chart 5 demonstrates how these variances widen when a simple annual average is taken to the block and barrel spread applied to monthly USDA AMS Announced Class Cheese Prices. USDA’s Federal Milk Marketing Order reform decision in 1999 went to great lengths to make the barrel price “look” like a block price.⁵ It adjusted the barrel price by converting the barrel moisture content to be like blocks and it added in the \$0.03 per pound barrel discount that was representative of lower packaging costs. For reference, the 1999 USDA decision stated, in explaining the reasoning for the \$0.03 per pound barrel discount, that “[a] number of other commenters argued that the proposed cheese make allowance would cover the cost of making none of the cheese made in California.”⁶

Chart 5



Red horizontal lines represent bounds for (+/-) \$0.03 per pound

Source: USDA AMS, Announced Class Prices

⁵ 64 Fed. Reg. at 16,098.

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With the expansion of 40-pound block production and the growth of its reporting in the NDPSR survey, the inclusion of barrel prices is no longer necessary or helpful. Additionally, the adjustment used to convert a barrel price to a block price equivalent is no longer accurate or required. In fact, it is harming the proper valuation of the Class III price by failing to account for frequent dramatic block-barrel spreads that negatively impact the Cheese Price, creating a disorderly marketing condition that is counter to USDA's stated intent in its 1999 decision.

In closing, the NMPF proposal to remove the U.S. average survey price for 500-lb barrel cheddar cheese from the computation of the protein price is more representative of current marketing conditions and more consistent with USDA's intent than the computation currently used. The fundamental purpose behind the barrel inclusion is no longer applicable more than 20 years after the original decision was made. The elimination of barrels will result in the protein price factoring into the Class III price more accurately representing how U.S. cheese is priced within the current marketplace. Thank you for allowing me to testify today.