

Testimony of Carl Rasch

Michigan Milk Producers Association

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My name is Carl Rasch. I am here today to testify on behalf of the Michigan Milk Producers Association, hereafter referred to as MMPA. MMPA is a member of National Milk Producers Federation (“NMPF”). MMPA fully supports Proposal Number 7, to increase make allowances until a mandatory audited cost survey can be used to reset them in the future. This proposal would increase the manufacturing cost allowances in the nonfat solids, butterfat, protein and other solids component formulas. Because MMPA is primarily involved in the production of butter and nonfat dry milk, my testimony will only address the merits of increasing make allowances used in the calculation of butterfat and nonfat solids values.

I am a private consultant engaged by MMPA to represent their interests at this proceeding. I also was designated to be their representative on the NMPF task force that developed the recommendations for Federal Order modernization that were ultimately approved by the NMPF board of directors and were included in the notice of hearing issued by USDA.

From 1977 to 2017, I was the director of bulk milk marketing for MMPA. In that capacity, I was responsible for negotiating and executing third party raw milk sales agreements, price forecasting, federal order reporting and pooling, and testifying at Federal Order public hearings.

MMPA is a Capper Volstead accredited milk marketing cooperative with headquarters and a laboratory in Novi, Michigan. MMPA also operates a large butter and powder bulk commodity plant at Ovid, Michigan. Ovid serves as the main balancing plant for our members’ milk supply. Additionally, MMPA operates an ultrafiltration and cream separation plant at Constantine, Michigan, a small, branded cheese plant at Middlebury, Indiana, and a fully regulated distributing plant at Canton, Ohio.

MMPA markets milk for more than 1,000 members located in Michigan, Indiana, Ohio, and Wisconsin. MMPA's markets milk for small Amish organic farms as well as large producers with multiple farm locations. MMPA's annual milk marketing is approximately 5 billion pounds. MMPA's milk supply is all Grade A, the majority of which is produced in Michigan and is primarily pooled in FO #33. My testimony will focus on the market dynamics for Michigan and FO #33.

Market Overview

Michigan ranks sixth nationally in terms of milk production. Because of moderate weather, abundant water, and plentiful forages, production has increased by 6 billion pounds since 2000, an increase of 106 percent. In the meantime, outlets for this additional milk production were limited due to milk processing plant closures. Numerous bottling plants have closed, and two butter/powder plants have ceased production. Even as plants have closed, cooperatives have provided a market for the additional production for their members. One cooperatively owned butter/powder plant added plant capacity, a new cooperatively owned butter/powder plant was built in 2009, and a large joint venture cheese plant began operations in 2020.

MMPA expanded its plant capacity at Ovid in 2010 in order to reduce surplus milk disposal costs. Continental Dairy Facilities was built in 2009 with the assistance of funding received from the American Recovery and Reinvestment Act. Glanbia completed Midwest Cheese (MWC) in 2020 with significant financial investment from two cooperatives who also supply the plant with raw milk.

Except for MWC, there has been minimal capital investment in commodity manufacturing facilities in Michigan despite the dramatic increase in milk production. Capital investments have primarily been made to replace obsolete equipment, upgrade on site wastewater treatment, and to comply with mandates of the Food Safety Modernization Act. These investments were necessary simply to maintain operations. Two cooperatives who owned old butter/powder plants could not justify the capital investment required to make necessary improvements in order to continue those operations and decided to discontinue butter/powder production at Constantine and Adrian, Michigan. The fact that the make allowances for the conversion of milk into butter and powder had not kept pace

with costs were a contributing factor in the decision to eliminate those operations.

Local Processing Facilities – excluding bottling

Present day proprietary manufacturing facilities consist of:

- 1 large cheese plant
- 2 medium size cheese plants
- 1 small cheese plant
- 1 medium size yogurt plant
- 2 medium size ice cream plants
- 1 small powder plant

Most of these facilities have multiple year contracts pertaining to a fixed supply, prescribed schedule, and price. Seldom do any of these facilities accept unscheduled milk and therefore do not perform a market balancing function. In fact, most of these facilities periodically require balancing assistance, similar to a fluid bottling plant. Consequently, it has become necessary for the cooperatively operated facilities to step up and fulfill the role of market balancers. Because of outdated and inadequate make allowances, providing this market service creates economic hardships for cooperative members.

Reserve supply/market clearing functions

Raw milk produced in Michigan has value as a reserve supply and is routinely shipped to supply deficit areas within the Mid-east milk market as well as seasonally to various southeast markets. Michigan is also a major supplier of intermediate milk ingredients for other manufacturing plants. For example, fresh cream, concentrated milk solids, and ultrafiltered milk are produced at plants located in Ovid, Constantine, Cass City, and Coopersville, all in Michigan. The Ovid, Cass City, and Coopersville plants are the principal market clearing outlets that are impacted most by the variability in the demand for raw milk or intermediate ingredients by processing plants in the region. Consequently, plant volumes at

these three balancing plants are extremely variable and lots of unused capacity frequently exists.

Fixed expenses

Balancing plant costs tend to be higher than average per unit of product produced due to their variable milk supply and the fixed nature of expenses such as insurance, taxes, laboratory testing, supervision, and other overhead expenses. Plant labor expenses have recently become nearly fixed as well. Because of the Ovid plant's proximity to auto assembly plants in Lansing, Michigan and other dairy processing facilities in the area, it is a very tight labor market requiring competitive compensation packages for employees, which in turn drives up overhead expenses. It is also difficult to locate, hire, and retain a qualified work force for seasonal work, weekend work and off-hour shifts. Consequently, headcounts at plants like Ovid are generally fixed. With a variable milk supply, the labor force often becomes underutilized, and the average cost per unit of product produced tends to be higher than the industry standard.

Need for mandatory cost and yield surveys

A major overhaul of Federal Order milk pricing in 2000 resulted in the replacement of the basic formula price with end-product pricing formulas. The intent was to determine the value of raw milk which was being converted into various non branded commodity dairy products. Critical to the accurate determination of the value of raw milk are the make allowances and yield factors used in these formulas. Establishment of the initial make allowances and yield factors was based upon scholarly research conducted by Cornell University and data collected by the California Department of Food and Agriculture (CDFA) via a systematic and periodic evaluation of the costs incurred by bulk dairy product manufacturing plants which were deemed to be representative of the California dairy industry. This provided USDA with unbiased and reliable dairy manufacturing cost and yield data to base their decisions upon when establishing the initial make allowance values and yield factors.

Unfortunately, no such data sources to assist USDA in determining the appropriate costs of manufacturing exist today. Due to the replacement of the California state milk marketing order with a federal milk marketing order, CDFA no longer conducts manufacturing cost studies of milk processing plants. USDA did

commission Dr. Mark Stephenson to conduct a voluntary survey of dairy manufacturing plants to determine more current manufacturing costs. This resulted in the release in a study entitled “Cost of Processing Study for Cheese, Whey, Butter, and Nonfat Milk Plants” which was released in 2022.

Because participation in Dr. Stephenson’s survey was voluntary and the data submitted was not audited, one should have reservations about how representative the results are of true costs. The survey results could possibly be skewed if large, efficient plants chose not to participate. They might choose not to participate in a voluntary survey if by doing so this would skew the results towards higher cost plants, increasing the make allowance, which would then reduce their milk ingredient costs. Also, the report fails to provide information upon which USDA could gauge how best to adjust yield factors.

For the afore-mentioned reasons, NMPF is recommending that the Department adopt a two-step approach in addressing the pressing issue of outdated make allowances. A moderate interim increase in make allowances could be implemented that would provide financial relief to processors without inflicting significant financial hardship upon producers. Additional increases could be considered when more sufficient, reliable, and representative plant cost data becomes available. For example, an additional adjustment could be considered after USDA conducts a mandatory plant processing cost survey. The responses to such a survey must be subject to audit. MMPA fully supports this approach.

Conclusion

The current make allowances for the production of butter and powder have not been adjusted since 2008. Current make allowances are woefully inadequate for a balancing plant. Even for a modern and efficient plant, the make allowances are inadequate because of escalating costs. For example, MMPA’s cost for manufacturing 55 kg boxes of unsalted butter has increased 39 percent and bagged and bulk nonfat dry milk powder has increased by 44 percent since 2015.

Although there is an urgent need to adjust make allowances, there needs to be a fair balance between the impact on producer pay prices and the cost relief provided to processors. In order to mitigate the negative impact for producers due

to an increase in make allowances, MMPA supports NMPF's proposed interim increases which will help alleviate the margin squeeze for processors. Specifically, the butter make allowance should be increased from \$.1715 per pound to \$.2100 per pound and the nonfat dry milk make allowance should be increased from \$.1678 per pound to \$.2100 per pound. Any further adjustments would need to be made based upon data compiled from mandatory participation in an audit of dairy plant manufacturing costs. Such audited cost studies should be conducted periodically. As a cooperative, MMPA has an obligation to protect the interests of its members regarding their pay prices as well as their investments in facilities. We believe that the increases in make allowances proposed by NMPF will enable all cooperatives to fulfill that obligation.

Thank you for the opportunity to make an appearance today and provide testimony for consideration by USDA.