Testimony of Monty Schilter

Northwest Dairy Association

5601 6th Ave South, Suite 300, Seattle, WA 98108

My name is Monty Schilter. I am testifying today on behalf of Northwest Dairy Association, which is usually referred to as "NDA." My title is Senior Vice President of NDA. I am responsible for leading the NDA members services team and lead matters pertaining to Federal Orders. I have been an employee of NDA for over 15 years and have worked milk pricing and Federal Orders under the direction of Dan McBride for a majority of those years.

NDA is a cooperative marketing the milk of approximately 295 dairy farmers in Washington, Oregon, Idaho, and Montana. Approximately 240 of our producer members are part of the Pacific Northwest Federal Milk Marketing Order (Order 124). Approximately 45 producers are located in the unregulated area of Eastern Oregon and Southwest Idaho. Approximately 10 producers are located in state regulated Montana.

NDA conducts all processing and marketing operations through a wholly owned subsidiary, known as Darigold. Darigold is a fluid milk processor in the Northwest region. Darigold operates three fully regulated pool distributing plants in Order 124 (Seattle and Spokane, Washington and Portland, Oregon), one partially regulated pool distributing plant is Boise, Idaho and one unregulated bottling plant in Bozeman, Montana. Darigold operates fully regulated pool manufacturing plants that dry milk products located in Lynden, Chehalis, and Sunnyside Washington and one unregulated plant in Jerome Idaho that dries milk products. Darigold also operates a fully regulated pool manufacturing plant in Sunnyside, Washington that produces cheese and whey and operates two butter plants in Issaquah, Washington and Caldwell, Idaho.

NDA would like to thank USDA for their timely response to the hearing request by NMPF and others. We appreciate the opportunity to address the important issue of updating the Federal Order Make Allowances at this hearing.

NDA/Darigold supports NMPF's proposal as they are directionally correct with increased cost to operation of our manufacturing and balancing plants. The lack of investment in manufacturing and balancing plants has driven up transportation costs in which producers bear all of the costs, make allowances serve to approximate the average costs of production, and we support the need for a formal, mandatory and audited regular update to the make allowance to stay inline with industry trends.

NDA/Darigold supports NMPF's proposal to increase make allowances for cheese, whey, butter and NFDM and would support the concept stated by USDA during the 2008 ruling the make allowances serve to approximate the average cost of producing cheese, whey, butter and NFDM. It is widely known that manufacturing costs have increased since 2008. In looking at our 2022 cost data, we have seen noticeable increases in energy, fuel, labor and packaging. From 2008 to 2022, manufacturing costs increased by over 80%. Our Fiscal Year 2023, which ended in March 2023, was one of the worst years in the recent history of our cooperative attributed in large part to these increased costs that are not captured in the current make allowance formulas.

Additionally, and not unlike other cooperatives across the United States, we have needed to implement a producer paycheck deduction to help balance the books for these continued cost challenges. The continued challenges to pay our members the Federal Order Minimum price and to show a profit to reinvest in our plants as well as position manufacturing plants and balancing plants near milk supply sources casts a dark shadow over the cooperative in the eyes of our membership and puts strain on member's financials. However, our membership and board understand the value to reinvest into these facilities for the next generation, but it has put our cooperative at a significantly higher level of financial risk and strain.

Since 2000, we have seen a continued shift in milk production from the Western Washington and Western Oregon over to Eastern Washington. With the cows moving east, we have needed to haul the milk back to the manufacturing and balancing plants in Western Washington and were shipping daily volumes of milk to Idaho to avoid dumping the milk. The transportation costs have at least doubled during that time period in which our producers pay 100% of those cost increases. In 2014, the cooperative decided to invest in additional capacity in Eastern Washington to help minimize this cost and built and additional drying plant at our Sunnyside location. It would have been a better business choice to build a bigger greenfield facility, but we chose to expand on an existing facility because it made more economic sense based on the current economic conditions driven by the make allowance formulas. I will note that neither a greenfield or the chosen expansion in Sunnyside were forecasted to be profitable under the 2008 make allowance values. 2 years ago, we announced a greenfield manufacturing plant to be built in Pasco, Washington. The plant will take in 8 million lbs of milk per day and will produce dried milk powders and butter. Again, under the current make allowances, we don't expect the plant to be profitable, but enough milk has moved into this region that the transportation costs have become large enough to promote this construction. We clearly expect a lower cost of production due to the efficiency of the new operation and its size and scale, but combined with our other manufacturing plants, we don't expect to be manufacturing products at costs less than the current make allowances. We intend to produce more value-added milk powders rather than NFDM. I will also note that it is more expensive to run balancing plants in the current environment since they are not running full all the time, thus creating additional strain to help service the Pool Distributing Plants. There is a tipping point when running your balancing plants full makes more economic sense than selling milk into a Pool Distributing Plant. At the risk of no balancing, the producers will face lower prices at the farms and consumers will face higher prices in the market.

We support the call to immediate action and also support the need for a formal, mandatory and audited regular update to the make allowances to stay in line with industry trends. However, we do not support a significant change in year 1 as it would have devastating impacts to our producers. We recognize increasing make allowances has an impact on producer prices, but we have discussed with the NDA Board of Directors and our members understand the need to protect their huge investments in our manufacturing plants. However, extreme changes will have extreme impacts on milk production in our region and the investment our members have in our existing manufacturing plant footprint. Even though, we recognize that NMPF's make allowance recommendations are less than the Stephenson voluntary and unaudited survey, a dramatic change immediately would have an unnecessary negative impact on the producer community.

In summary, NDA/Darigold supports NMPF's proposal as they are directionally correct with the increased costs to operate our manufacturing and balancing plants, lack of investment in manufacturing and balancing plants has driven up transportation costs in which producers bear all of the costs, make allowances serve to approximate the average costs of production, and we support the need for a formal, mandatory and audited regular update to the make allowance to stay in line with industry trends. Thank you for the opportunity to present my testimony.