Increasing the Make Allowance
Supporting the NMPF Proposal # 7

My name is Matt Hoff and my farm address is 3901 B Hawks Hill Road, New Windsor, MD 21776 where my wife, Debra and I are 5th generation dairy farmers at Coldsprings Farms in Carroll County, Maryland. Our herd consists of 1100 milking cows, 200 dry cows and 1000 replacement heifers. We farm approximately 2400 acres of ground where we grow corn, small grains, soybeans, and alfalfa. Our farm markets its milk through Maryland and Virginia Milk Producers Cooperative, Association, Inc. In addition to farming, I currently serve on our cooperative's board of directors and have since 2010.

Maryland and Virginia Milk Producers is a milk marketing cooperative that operates up and down the east coast primarily in Atlantic Ocean bordering states from New York to South Carolina. In addition to owning three predominantly fluid bottling plants, which we call consumer products plants, one in North Carolina, one in Virginia and one in Maryland; Maryland and Virginia also owns and operates two manufacturing facilities, one in Virginia and one in Maryland that have historically provided balancing to the overall marketplace in the same geography.

I am here today to testify in support of the National Milk Producers Federation proposal to increase the outdated make allowances in the component price formulas that have been in place since 2008 based on manufacturing cost data from 2006 and 2007. While it may seem a bit counter-intuitive for a dairy farmer to testify in a Federal Order hearing in support of a change in regulation that will ultimately lower the regulated milk price, I firmly believe this change is necessary.

As a member owner of two of the southernmost butter-powder manufacturing plants along the eastern seaboard where a lot of our milk goes during the spring flush, I am reminded throughout the spring when each of my monthly settlement checks comes that something just doesn't seem quite right with our current regulated pricing system. For the past several years, as members, we have experienced deductions from our statements showing a market adjustment charge in some shape or form. I often challenge our cooperative management and question if this is necessary and if so, why. The explanation is straightforward. If you purchase a perishable raw material such as milk at some regulated price, let's call that x; then you convert that milk into a storable finished product such as non-fat dry milk powder at some cost, let's call that y; you must sell that converted product at a sum of x plus y to break even. If the sales price of that product is anything less than x plus y you lose money.

It seems the simplest solution to this dilemma would be to just raise the selling price. I've come to learn throughout my career of selling commodity products that we are more so market takers and less so market makers. Fundamentals of supply and demand have more influence on what you can sell your product for, and the market doesn't necessarily care about x or y.

To stay viable, my cooperative must do one of two things. Reduce x, the cost in which they purchase their raw materials or reduce y, the cost in which they convert the milk into non-fat powder. I would prefer that they did the latter. However, I also understand the immediate and lasting effects of the Covid-19 pandemic on the supply chain which have increased costs across the board including equipment, energy, and especially labor. It has happened on my farm, and I know it has also happened across manufacturing sectors food and non-food alike. In addition, and more recently, the financial markets have also taken a turn increasing interest rates for short-term operating credit. The cooperative had no choice but to do the former, reduce x, hence market adjustments on my milk statements.

But is there yet another option? Our cooperative operates mostly within federal order regulated markets, primarily Federal Order 1 and Federal Order 5. Our current Federal Order pricing system has a mechanism in place that is supposed to recognize the costs of manufacturing butter, nonfat dry milk, cheddar cheese and dry whey. These are called make allowances which are used in the product price formulas that are used to determine the value of butterfat, protein, and nonfat milk solids in the milk that I ship off my farm. Make-allowances in these formulas hadn't been updated since 2008. I know that costs to operate my farm have gone up since then. I know the costs for the cooperative to operate its plants have gone up since then. I know the current outdated make allowances are already having an impact on my milk check from my cooperative in the form of a market adjustment. I know that my farm is not unique in being assessed a market adjustment as I speak with fellow dairy farmers up and down the east coast as well dairyman in the Midwest and the West that are not members of my cooperative but are members of other ones.

Our cooperative owners have invested millions of dollars into our plants that provide a valuable balancing service to the entire marketplace. We help all market participants keep their costs down and give them greater predictability because they have known throughout the years our plant is there to help balance the market including producer excess production and plant demand fluctuations. Our member farms end up absorbing costs that other market participants who benefit from an otherwise orderly marketing system do not. This inherently and unfairly penalizes my farm and my fellow cooperative members for investing in market balancing plants.

I know that the cost to manufacture butter and powder and I must assume cheese as well, have increased exponentially since 2008. However, since make allowances have not been updated for so many years, it would likely be disruptive to bring them up to date in one fell swoop. Providing an interim modest increase to each as proposed by the National Milk Producers Federation should help alleviate the acute problems while not creating unintended negative consequences. I do support the concept that manufacturers be mandated to provide auditable cost and product yield data so that make allowances can be updated in a more timely fashion with more accurate data, but that will take some time and require additional authority to be given to the Department to implement this kind of change. It is for all these reasons that I ask you to support the proposal to update the outdated make allowances for butter, nonfat dry milk, cheddar cheese and whey as submitted by the National Milk Producers Federation. Thank you.