

**TESTIMONY OF THE INTERNATIONAL DAIRY FOODS ASSOCIATION WITH
RESPECT TO SURVEYED COMMODITY PRODUCT PROPOSAL 5
AUGUST-SEPTEMBER 2023 FEDERAL MILK ORDER HEARINGS
DOCKET NO. 23-J-0067; AMS-DA-0031**

This testimony is submitted on behalf of the International Dairy Foods Association (IDFA) with respect to Proposal 5. This proposal would amend the commodity products that are surveyed as part of the formula for setting minimum milk prices, by adding unsalted butter to the butterfat and protein price formulas.

IDFA represents the nation's dairy manufacturing and marketing industry, which supports more than 3.2 million jobs that generate \$49 billion in direct wages and \$794 billion in overall economic impact. IDFA's diverse membership ranges from multinational organizations to single-plant companies, from dairy companies and cooperatives to food retailers and suppliers, all on the forefront of innovation and sustainable business practices. Together, they represent milk, cheese, ice cream, yogurt and cultured products, and dairy ingredients produced and marketed in the United States and sold throughout the world.

As buyers and processors of milk, the members of IDFA have a critical interest in these hearings. Most of the milk bought and processed by IDFA members is purchased under the Federal milk marketing orders promulgated pursuant to the Agricultural Marketing Agreement Act of 1937 (the "AMAA").

I am Mike Brown, Chief Economist for IDFA since January 2023. I have testified on other proposals earlier in this hearing, and at that time described my professional and educational background. My testimony now will address Proposal 5.

Since January 2000, federal milk marketing orders have utilized the price of finished products to determine the minimum milk prices that must be paid to farmers, through a mechanism commonly referred to as a "product price formula." Oversimplifying slightly, a product price formula sets the minimum price that farmers must be paid for their milk (at least by proprietary handlers) as the price handlers receive for their finished products (cheddar cheese, dry whey, butter and nonfat dry milk) minus the costs handlers incur in turning farm milk into those finished products (commonly referred to as the "cost of manufacture" or the "make allowance"). In performing this calculation, USDA must make assumptions as to how much of the finished products can be made from a given quantity of milk (the "yield factors").

Accordingly, step one in the formulas by which USDA sets minimum price for milk used to make Class III and IV products starts with a survey of the price paid for specified manufactured dairy products. Proposal 5 would change that step in the process, by adding unsalted butter to the prices included in the price surveys.

For the reasons I will now explain, Proposal 5 should be rejected.

In order to set the butterfat price component of the price of milk used to make Class I, II, III and IV products, the orders since 2000 have in step one relied upon the U.S. average price for AA butter. 7 C.F.R. 1000.50(l). This price is obtained through a survey of the National Dairy Products Sales Report (NDPSR). To be included in these Sales Reports the butter must meet certain criteria, including being 80 percent butterfat, salted, fresh or storage; meeting USDA Grade AA standards; and being packaged in 25-kilogram and 68-pound box sales. 7 C.F.R. 1170.8(b). Unsalted and Grade A butter are

specifically excluded from the Reports, as are several other categories of butter. 7 C.F.R. 1170.8(b)(4).

NDPSR surveyed sales of Grade AA butter are quite substantial, over 194 million pounds in 2022. USDA Datamart, Location: Products\Dairy\All Dairy\DY_WK100) National Dairy Products Prices – Weekly, available at <https://mpr.datamart.ams.usda.gov/>. Confirmed Thus, a very robust quantity of butter sales is relied upon for purposes of determining the market butter price.

Grade AA butter is traded on the Chicago Mercantile Exchange (CME). Thus, by basing the butterfat price on the price of Grade AA salted butter, USDA is relying upon a heavy volume of trade data, of a commodity that is subject to uniform specifications, publicly traded, and for which price surveys are already conducted.

None of the foregoing attributes apply to unsalted butter. There is no uniform specification for unsalted butter. Without a uniform specification, it is impossible to derive a uniform price usable for purposes of a federal order pricing formula.

Indeed, because unsalted butter does not store as well as compared to salted butter, unsalted butter is much more likely to be made to order, according to the requirements of a specific buyer, and thus even less capable of providing useful uniform price information. In addition, unsalted butter tends to be priced off the CME Grade AA salted butter price, and therefore does not bring to bear any new pricing information.

Furthermore, substantial quantities of unsalted butter are exported through premium-assisted sales such as the CWT program. These sales are explicitly excluded from the National Dairy Products Sales Reports, for the very reason that they are not reflective of actual competitive pricing for butter. 7 C.F.R. 1170.8(b)(4). This treatment

provides further proof that unsalted butter should not be relied upon for determining the market price of butter, for milk order product pricing purposes.

For these reasons, Proposal 4 should not be adopted.