

**TESTIMONY OF AMPI IN SUPPORT OF PROPOSALS 8 & 9:  
IDFA AND WCMA PROPOSAL TO UPDATE MAKE ALLOWANCE VALUES USED  
TO DETERMINE FEDERAL ORDER MANUFACTURING MILK PRICES  
AUGUST-SEPTEMBER 2023 FEDERAL MILK ORDER HEARINGS  
DOCKET NO. 23-J-0067; AMS-DA-0031**

I am Steve Schlangen, a dairy farmer from Albany, Minn., and chairman of the Associated Milk Producers Inc. Board of Directors. My comments are on behalf of 800 fellow dairy farmer- owners and focus on our cooperative priority of updating make allowances to reflect the cost of processing milk into dairy products.

For context, a bit about my farm and the cooperative in which I'm an owner.

My wife Cheryl and I milk 60 cows with a robotic milker and farm 200 acres. We began our dairy farming career in 1986, buying a small herd of cows and renting the barn on the farm we now own. AMPI was there to help when we first got started, and we've been members ever since.

The co-op is headquartered in New Ulm, Minn., and owned by dairy farm families from Wisconsin, Minnesota, Iowa, Nebraska, South Dakota and North Dakota. We are the largest farmer-owned cheese cooperative in the U.S.

Our cheese, butter and powdered dairy products are produced at eight manufacturing plants located throughout the region and then marketed to foodservice, retail and food ingredient customers.

AMPI supports proposals to update manufacturing allowances to 2022 levels. Over the past two years, the dairy farmer-owners and employees of AMPI participated in committees examining needed federal milk marketing order updates through the International Dairy Foods Association (IDFA), the National Milk Producers Federation (NMPF), and the Wisconsin Cheesemakers Association (WCMA).

We are amid a once-in-a-generation opportunity to reset the federal milk marketing order system. The opening page of the USDA-AMS Federal Milk Marketing Order web site states the intended purpose of federal milk marketing orders:

“Federal orders serve to maintain stable marketing relationships for all handlers and producers supplying marketing areas, thus facilitating the complex process of marketing fresh milk.”

The first step of fulfilling this mission is determining the minimum milk prices for the four classes of milk utilization. In other words, federal orders determine the minimum values for all milk pooled under a federal order.

To accurately determine these milk values, the system must reflect current manufacturing costs for milk and require regular updates to reflect both changes in costs and efficiencies. Today, the milk price regulations are outdated and increasingly irrelevant. Void of any updates since 2008, the current manufacturing milk calculations do not reflect today’s costs. Simply put, it has become a system built on bad math. This is detrimental to dairy manufacturers and farmers alike, disregarding the basic purpose of the system: providing the stable marketing relationships as described on the FMMO website.

Make allowances are an estimate of dairy processors’ cost of converting milk into dairy products. Many of those production costs, including labor and energy, have skyrocketed since make allowances were last updated in 2008. Capital and operating costs have increased significantly in 15 years.

As a dairy farmer and owner of eight dairy manufacturing facilities through AMPI, I’ve witnessed the repercussions of outdated make allowances. When underestimating processing costs used to determine federal order milk component values, inaccurate price signals are sent to the marketplace and may lead to the misallocation of capital and resources.

Make allowances are important as they drive all minimum milk prices. The impact of these overvalued minimum prices is drastic. Milk market premiums have been replaced with significant price reblands below regulated minimum prices across much of the country. Most U.S. cooperatives have instilled production limits, as inadequate manufacturing capacity is not meeting many dairy farmers' desire to grow their businesses and be cost-competitive.

To quote Tanner Ehmke, former lead dairy economist for CoBank, "Inadequate make allowances may lead to underinvestment in dairy processing facilities or result in over-investment in low-cost plants. Ultimately, that could result in limited market access for U.S. dairy products and allow international export competitors to meet the rising global demand for high-value dairy products."

To facilitate a timely update, the 2023 Cost of Dairy Processing survey tool was launched by Dr. Mark Stephenson. He has worked on production costs for manufacturing plants, from cheese to fluid milk, for decades. His work includes previous cost surveys for USDA in 2006 and 2021. The 2021 survey, published last year, included mostly 2018 costs.

Recognizing the large shifts in capital and operating costs for their members over the past few years, IDFA and WCMA funded the update to Dr. Stephenson's most recent survey of 2022 cost data, completed this spring. AMPI participated in this survey, submitting costs for multiple products from four cheese manufacturing facilities and one nonfat dry milk plant.

Dr. Stephenson used a computer survey process to collect the information, very similar to his earlier approaches. He also changed cost allocations back to a "per solids" basis, as is standard practice for most of the industry and the method used in his 2006 survey and the well-regarded California Department of Agriculture audited cost surveys.

Dr. Stephenson collected cost information from 18 cheddar manufacturing plants across the country. These plants produced an average of 122 million pounds of cheddar cheese annually, well above the average cheddar production per plant in this country.

Even with significantly larger plants included in this survey, Dr. Stephenson's 2023 cost survey results were significantly higher than current make allowance levels.

The 2023 survey found an average cheddar manufacturing cost of 26.43 cents per pound, more than 6 cents higher than the current make allowance. Average whey manufacturing costs averaged \$0.3361 per pound; 13.7 cents higher than the current make of \$0.1991 cents.

IDFA and WCMA also commissioned a study to project 2022 costs based on the audited California cost surveys from 2002-2016. Dr. Bill Schiek found the projected 2022 costs for cheddar cheese were \$0.3006 and dry whey was \$0.2953 per pound.

As the largest, cooperatively owned cheese company in the U.S., our cost of processing per manufactured pound clearly illustrates the outdated make allowances. I'll share these today through percent of change to protect proprietary information. The change is calculated from the cost of processing per manufactured pounds in fiscal year 2022 (December through November) compared to fiscal year 2008. The years are significant as it reflects the same period since make allowances were last updated.

The high-level percent change for AMPI bulk cheese products is 47% higher in 2022 than 2008. General plant expenses are up 62%.

Since the last make allowance update in 2008, cheesemaking equipment to facilitate fat recovery has been installed in each of AMPI's major cheese plants. Despite these capital investments to increase yield and plant efficiencies, AMPI's cost to convert milk to cheese still increased immensely.

Though some caution a 15-year leap in make allowance values will hurt U.S. dairy farmers, AMPI contends it brings about more orderly marketing conditions and better reflects the relative value

of all products. It also puts the regulated milk costs in greater alignment with the prices paid by the many unregulated competitors we compete against for product sales every day.

Experience in our plants more than justifies the proposed increases immediately. Some are proposing any changes in make allowances or other pricing be further delayed, giving futures markets time to adjust to the make allowance changes. In our view, any delay will magnify an already disorderly marketplace.

Moving forward, AMPI supports most industry organizations in updating make allowances through mandated, audited surveys. These updates must happen to avoid the current misalignment of actual costs with make allowances.

Thank you for the opportunity to underscore the need to update make allowances and restore a credible federal milk marketing order system. The dairy farmer-owners of AMPI believe the system should be built on real numbers. We look forward to the day the Class III number truly reflects the value of milk for cheddar manufacturing.