UPDATED
IDFA Exh. 5

IDFA TESTIMONY IN OPPOSITION TO PROPOSALS 1 AND 2

PROPOSALS 1 AND 2

Proposals 1 And 2 Would Increase The Skim Milk Component Factors For Setting Class III And IV Prices As Follows:

- **Nonfat solids: Increase from 9.0 to 9.41 per hundredweight of Class IV skim milk**
- **Protein: Increase from 3.1 to 3.39 per hundredweight of Class III skim milk**
- **Other solids: Increase from 5.9 to 6.02 per hundredweight of Class III skim milk.**

Proposals 1 And 2 are Based on 2022 National Average Component Levels Using:

Component Data From The Seven MCP Orders

Component Estimates For The Four Fat Skim Orders

A. The Impact Of Proposals 1 And 2 on Class II, III And IV Pricing in the Seven MCP Orders

Proposals 1 and 2 would have no impact whatsoever on Class III and IV handler obligations, or producer receipts for Class III and IV milk in the seven MCP orders

MCP Orders encompassed 89% of 2022 Federal Order milk marketings

The proposals slightly lower the Class II Nonfat Solids price per pound.

- Why? MCP Orders already pay on components.

Handler payment obligations, and producer receipts, for Classes II, III and IV in the seven MCP orders are based upon the actual component levels in the milk

The assumed component levels that Proposals 1 and 2 would increase play no role at all in determining handler obligations or producer receipts with respect to Classes II, III and IV in the MCP orders.

Pricing levels automatically adjust as component levels change.

B. The effect of Proposals 1 and 2 on Class II, III and IV in the four fat-skim orders

Proposals 1 and 2 would have a direct effect on the price paid for Class II, III and IV milk in the four fat-skim orders

5-Year increase/cwt. ranges from 40-80 cents/pound.

Total impact on the 4 Fat-Skim orders is about $33 million.

ANNUAL INCREASE IN FAT SKIM ORDERS

Proposals 1 & 2 Skim Adjustments for Classes II, III, and IV				
Year	Class II	Class III	Class IV	Class II SNF
2013	$0.61	$1.01	$0.61	-$0.0035
2014	$0.68	$1.16	$0.68	-$0.0034
2015	$0.32	$0.67	$0.32	-$0.0035
2016	$0.26	$0.62	$0.26	-$0.0034
2017	$0.29	$0.57	$0.29	-$0.0034
2018	$0.25	$0.50	$0.25	-$0.0035
2019	$0.35	$0.71	$0.35	-$0.0032
2020	$0.36	$1.11	$0.36	-$0.0035
2021	$0.43	$0.85	$0.43	-$0.0034
2022	$0.62	$0.84	$0.62	-$0.0034
5-Year	$0.40	$0.80	$0.40	-$0.0034
10 Year	$0.42	$0.80	$0.42	-$0.0034

Proposals 1 & 2: Class II, III and IV Impacts					
	Class II Skim Difference Million $$	Class II SNF Difference Million $$	Class III Skim Difference Million $$	Class IV Skim Difference Million $$	Total II,III,IV Difference Million $$
Northeast	--	-$1.3	--	--	-$1.3
Upper Midwest	--	-$0.1	--	--	-$0.1
Central	--	-$0.2	--	--	-$0.2
Mideast	--	-$0.3	--	--	-$0.3
California	--	-$0.2	--	--	-$0.2
Pacific Northwest	--	-$0.1	--	--	-$0.1
Southwest	--	-$0.1	--	--	-$0.1
MCP Orders	--	-$2.3	--	--	-$2.3
Appalachian	$2.6	--	$3.3	$1.7	$7.6
Florida	$1.2	--	$0.3	$0.1	$1.7
Southeast	$2.7	--	$1.5	$0.6	$4.7
Arizona	$2.6	--	$10.8	$5.8	$19.1
Fat-Skim Orders	$9.0	--	$15.8	$8.2	$33.0
All Orders Combined	$9.0	--	$15.8	$8.2	$33.0

The increase is completely unrelated to the actual component levels in the four fat-skim orders.

Reliable component data for the four fat-skim orders is available

- Collected by Dairy Herd Improvement Associations (DHI)
- Available online from the Council on Dairy Cattle Breeding (CDCB)
- 2019-22 recorded lactations represent over 62% of total Federal Order volume

DHI Component Levels for Fat-Skim Orders are Well Below the Component Levels used under Proposals 1 & 2

Proposed Formula Protein % in Skim: 3.39%

2020-2022 DHI Average Protein in Skim:

- **Florida 3.15%**
- **Appalachia: 3.24%**
- **Southeast: 3.30%**
- **Arizona: 3.34%**
- **Weighted average: 3.25%**

Proposed Formula Nonfat Solids: 9.41%

Predicted DHI Nonfat Solids : 9.25%

It was entirely predictable that the Nonfat Solids levels in the four Fat-Skim Orders would be below National Averages

Dairy Producers respond directly to market signals.

- **MCP orders directly pay farmers more for higher nonfat solid levels.**
- **Fat-skim orders do not.**

Farm Milk component levels are very seasonal and Product Yields change Accordingly

- **Monthly cheese yield varies by 0.8 pounds from high month to low month**
  - **In a $2.00 cheese market, that would equal $1.44 per cwt on Class III milk.**
- **This variance in yield means skim milk prices for manufacturing milk can be overvalued seasonally**
- **This is why price should track actual skim solid levels (MCP) rather than at flat, high component levels.**

Comparison of 2022Monthly Component Tests & FMMO Product Formula Yields

ALL MCP Orders - 1,30,32,33,51, 124,126	Market Average Component Tests per CWT MILK				Component Tests per CWT SKIM			FMMO Formula Product Yields per CWT[1]			
	Butterfat Test (percent)	Nonfat Solids Test[2] (percent)	Protein Test[2] (percent)	Other Solids Test[2] (percent)	Nonfat Solids Test[2] (percent)	Protein Test[2] (percent)	Other Solids Test[2] (percent)	FMMO Cheese Yield	FMMO Fat in Whey	FMMO SNF Yield	FMMO Whey Yield
January	4.19	9.09	3.31	5.78	9.49	3.46	6.03	10.67	0.42	9.39	6.21
February	4.15	9.07	3.29	5.78	9.47	3.43	6.03	10.60	0.42	9.37	6.21
March	4.10	9.04	3.26	5.78	9.43	3.40	6.03	10.51	0.41	9.34	6.21
April	4.05	9.01	3.24	5.78	9.39	3.37	6.02	10.43	0.40	9.30	6.20
May	3.96	8.97	3.19	5.79	9.34	3.32	6.02	10.27	0.40	9.25	6.21
June	3.92	8.94	3.15	5.79	9.30	3.28	6.03	10.15	0.39	9.21	6.21
July	3.89	8.90	3.12	5.78	9.26	3.25	6.01	10.07	0.39	9.17	6.19
August	3.90	8.91	3.14	5.77	9.27	3.26	6.00	10.11	0.39	9.18	6.18
September	3.99	8.98	3.21	5.77	9.35	3.34	6.01	10.34	0.40	9.26	6.19
October	4.11	9.06	3.30	5.77	9.45	3.44	6.02	10.62	0.41	9.36	6.20
November	4.20	9.12	3.35	5.77	9.52	3.50	6.02	10.79	0.42	9.43	6.21
December	4.24	9.12	3.36	5.76	9.52	3.51	6.02	10.82	0.42	9.43	6.20
Average	4.06	9.02	3.24	5.78	9.40	3.38	6.02	10.45	0.41	9.31	6.20
High Month	4.24	9.12	3.36	5.79	9.52	3.51	6.03	10.82	0.42	9.43	6.21
Low Month	3.89	8.90	3.12	5.76	9.26	3.25	6.00	10.07	0.39	9.17	6.18
Range	0.35	0.22	0.23	0.03	0.26	0.26	0.03	0.75	0.04	0.26	0.03

[1]The Formulas used in Federal Order Component Price Calculations are used to determine Yield

*Cheese: (Milk True Protein*1.383) + (Milk True Protein*1.17*1.572) Fat in Whey Cream: Butterfat*10% NFDM: SNF*0.99 Dry Whey: Other Solids*1.03*

CONCLUSION:

Proposals 1 and 2 would often require handlers to overpay for milk used for Class II, III and IV in the four fat-skim orders

If farmers in Fat –Skim orders want to be paid based on component levels, they should adopt MCP

C. Impacts of Proposals 1 and 2 on Class I skim in all Federal Orders

Proposals 1 and 2 would increase Class I prices in all 11 Federal Orders based upon increased levels of skim milk solids, with no corresponding impact in product yield.

Class I Impact from Proposals 1 & 2

NMPF Skim Proposal Adjustments			
Year	Advance	Advance	Current
	Class III	Class IV	50:50
2013	$1.00	$0.61	$0.80
2014	$1.17	$0.68	$0.92
2015	$0.71	$0.32	$0.52
2016	$0.58	$0.26	$0.42
2017	$0.58	$0.29	$0.44
2018	$0.52	$0.25	$0.38
2019	$0.64	$0.35	$0.49
2020	$1.14	$0.36	$0.75
2021	$0.85	$0.43	$0.64
2022	$0.84	$0.62	$0.73
5-Year	$0.80	$0.40	$0.60
10 Year	$0.80	$0.42	$0.61

Proposals 1 & 2: Class I and Total Impacts			
	Class I Skim Difference	Total II,III,IV Difference	Total Skim Price Difference
	Million $$	Million $$	Million $$
Northeast	$46.6	-$1.3	$45.4
Upper Midwest	$12.9	-$0.1	$12.8
Central	$25.6	-$0.2	$25.4
Mideast	$36.5	-$0.3	$36.2
California	$27.7	-$0.2	$27.5
Pacific Northwest	$9.5	-$0.1	$9.4
Southwest	$22.6	-$0.1	$22.5
MCP Orders	$181.5	-$2.3	$179.2
Appalachian	$22.4	$7.6	$29.9
Florida	$12.1	$1.7	$13.8
Southeast	$16.6	$4.7	$21.3
Arizona	$7.8	$19.1	$26.9
Fat-Skim Orders	$58.9	$33.0	$91.8
All Orders Combined	$240.3	$33.0	$271.0

USDA recognized decades ago that fluid milk gets no yield benefits from higher skim solids.

What USDA said when it first adopted Component Pricing

"While protein content was seen to be critical in establishing the value of milk used in cheese, **there was no evidence, that protein content has any effect on the value of fluid milk products at all.** On the contrary, **there appears to be general agreement that consumers are not willing to pay more for fluid milk with a higher-than-average protein content than they are for low-protein milk.** Handlers cannot easily remove protein from fluid milk products to add it to products in which it would have value, and it is illegal for them to add water to milk to reduce its protein content. Therefore, handlers obtain no discernable difference in economic benefit from the various levels of protein contained in milk used in fluid milk products, and **there is no justification for requiring them to pay for such milk according to its protein content."**

Milk In the Great Basin and Lake Mead Marketing Areas; Decision on Proposed Amendments to Marketing Agreements and to Orders, 53 Fed. Reg. 686, 702 (Jan. 11, 1988).

What the USDA said in 1988 is still true today.

1. FDA Standards of Identity forbid Class I handlers from removing and selling the excess skim milk solids
2. Except for specialty products that represent only a small percentage of fluid milk sales, consumers do not perceive value in skim milk solids in excess of FDA standard of identity requirements

The narrowing of pricing between Class I and the other milk Classes simply reflects the differences in component impacts on yield.

- The narrowing of the difference between the effective price of milk going to Class II, III and IV uses in MCP orders and the price of milk going to Class I use simply reflects that the higher solids levels that have been encouraged and achieved in the MCP orders have value to Classes II, III, and IV but not Class I, which does not have a yield benefit from higher skim solids.
- This represents alignment, not misalignment.
- It is a good thing, not a bad thing.

We are not suggesting that the price of Class I milk should be decoupled from the price of Class III and IV milk.

- To the contrary, when demand for Class III and IV products or other factors increase the price at which those products are sold, regulated minimum Class III and IV prices automatically increase
- Those increases are automatically reflected in higher Class I minimum prices, via the base Class I skim milk and butterfat prices.
- That is a fundamental basis upon which the federal order system operates. But the federal order system does not, and should not, increase Class I prices when the increase in Class II, III and IV payment obligations instead reflect higher nonfat component levels that are of value to the production of Class II, III and IV products but not Class I products.

There is no need to increase Class I base prices to attract an adequate supply of milk for Class I purposes.

- Current Class I utilization is only 27% of total Federal Milk Order marketings, the lowest in history.
- The Federal Milk Marketing Order system is awash with milk from a "fluid needs" (Class I) perspective.
- Orders have not since at least 2010 been asked to increase shipping requirements to require manufacturing plants to provide additional milk to Class I plants. To the contrary, the orders have routinely lowered those shipping requirements, at the behest of the very cooperatives who are now claiming in this hearing that the orders should be changed to reflect an alleged (non-existent) supply deficit for Class I milk.