

**TESTIMONY OF TIM GALLOWAY IN OPPOSITION TO PROPOSAL 21  
(INCREASING THE CLASS II DIFFERENTIAL)**

Good morning. My name is Tim Galloway. I am the CEO of Galloway Company, a four-generation processor of concentrated dairy ingredients for further food and beverage processing located in Neenah, Wisconsin. The milk in our products are regulated by Federal Order 30. Galloway Company, and our wholly owned subsidiary Classic Mix Partners, only manufacturers industrial ingredients that are considered Class II items by the FMMO. Specifically, we make sweetened condensed milk, ice cream mixes, beverage bases and non-sweetened concentrate dairy products. We primarily use local milk, but in some months we have to use some additional cream or condensed skim milk. We make no retail items, and our ingredients are sold nationwide.

I have testified at every FMMO hearing since 1990. At times it seems like the hearings are similar to the movie Groundhog Day as the same supposed issues and solutions come up each time. A good example is the Farm Bureau Class II Differential Proposal. I am not here to debate their economic analysis. I am here to explain why, as a real-world processor of Class II items, the proposal will not attract more milk to Class II uses, increase the blend price, reduce de-pooling and negative PPDs. In fact, it has a likelihood of taking more Class II milk out of the pool replaced by regulated Class IV ingredients, or milk ingredients from unregulated

markets. In Federal Order 30, milk purchases have to be competitive to the dominant Class III market. And on the sales side, we have to be competitive to competing ingredients such as condensed skim milk, NFDM, concentrated milk fat and anhydrous milk fat.

There is no financial justification for the re-wetting of solids theory. Let me give you just two examples from the real world of manufacturing food and beverage products. The first is ice cream mix. Some manufactures, like our Classic Mix, think the flavor and functionality of ice cream is better if made from liquid dairy components. But as was abundantly clear when the Class II price was tied to Class III cheese back in the 1990's, many retail and mix ice cream manufacturers switched to dry dairy solids and anhydrous milkfat due to the vast discrepancy in price between Class III and Class II. To make ice cream you need to combine a number of ingredients both liquid and dry, hydrate to the proper total solids, and pasteurize. No rewetting needs to be done as the corn sweetener and liquid sugar are at a high enough temperature to fully hydrate the dry milk solids. Therefore, if the liquid Class II ingredients differential gets more expensive, in the proponent's scheme of more than doubling the differential, than it gives an incentive to use Class IV ingredients. The customer makes the ultimate decision on cost. The implication that there would be more Class II milk at a higher differential is speculative and may

be counterproductive. The FMMO would be creating ingredient manufacturer winners and losers and promote disorderly marketing.

The same can be said for sweetened condensed milk (SCM) as an ingredient for further food manufacturing. This is an industrial product used in unregulated food products unlike retail yogurt, cottage cheese, frozen ice cream, and other Class II retail products. As I testified at the 2006 hearing, in 2005 the sweetened condensed industry for industrial use had lost over 65,000,000 pounds of production in 10 years. At an average of 28% total milk solids that equates to 54,000,000 pounds of milk not going into Class II use but instead going to Class IV. Our competitor in sweetened condensed milk is butter/powder. We finally got this right in the 2006 hearing even if the differential jumped from \$0.30 cwt to \$0.70 cwt. Our customers didn't like the increase but have to date stuck with us. I don't think they will at a differential of \$1.56 cwt. on raw milk, particularly when that equates to \$2.58 cwt. of finished SCM. As testified at the last hearing, when a food manufacturer makes the decision to put processing equipment in place to blend and hydrate butter and powder they don't switch back and forth with liquid ingredients. The capital investment is now a sunk cost that needs to be amortized over time. Again, it is the FMMO that is causing disorderly marketing.

Regulations of the FMMO should not result in arbitrary and capricious results. But, let me give you two examples. One, the end user or retail manufacturer

should be able to select the best ingredient for their product. The FMMO should not decide what that ingredient is based on arbitrary pricing mechanisms. To the point of being capricious I can state that, due to capacity restraints in the sweetened condensed milk industry, Galloway Company two years ago decided to build the first sweetened condensed milk evaporator since 1988, which was also built by Galloway Company. We did the design work, purchased the equipment, purchased the concrete panels and on August 22, 2023 had the groundbreaking ceremony for a \$65,000,000 expansion. If the proponents' plan prevails all this effort and expense may be for naught.

What is the benefit to the producer and the pool? The proponents state it is the upcharge from \$0.70 cwt to \$1.56 cwt. for an increase of \$122 million to the pool. I contend it is just the opposite where the current \$0.70 cwt differential equating to \$99.4 million may be lost to Class IV sales.

Be very careful what you wish for.