UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

In re: Milk in the Northeast and Other Marketing Areas	7 CFR Parts 1000 *et seq.* Docket No. 23-J-0067; AMS-DA-23-0031

CARMEL, INDIANA
AUGUST 2023

TESTIMONY OF CRYSTAL CREAMERY – PART 1 REGARDING NATIONAL HEARING ON FEDERAL MILK MARKETING ORDER PROPOSALS

September 8, 2023

I. BACKGROUND

A. PERSONAL BACKGROUND

My name is Jacob Schuelke and my background in the dairy industry began growing up on a dairy farm in New York State. I then went on to receive a bachelor's degree in agricultural business from Cornell University and a master's degree in agricultural economics from the University of Wisconsin-Madison, where I was a research assistant under Ed Jesse on a variety of dairy marketing research projects. From there I worked in the extension service as a dairy business management educator. My career in the private sector started with Hilmar Cheese where I was their dairy economist. Then I moved on to California Dairies where I was the head of milk pooling and payment. Next, I went to work for a start-up called Valley Milk LLC where I helped incorporate and receive Capper-Volstead certification for their milk supply cooperative. Over the last three years I have been working for Crystal Creamery as their CFO and head of milk procurement.

B. COMPANY BACKGROUND

Crystal Creamery is an all-inclusive dairy operation with plants in Modesto and Fernbridge, California. Our headquarters is in Modesto California and we have fewer than 1,1150 employees. We produce Class I fluid milk, Class II products (ice cream, cottage cheese, sour cream), we supply the Class III market with condensed milk, and both of our production facilities have a Class IV dryer to balance the milk supply. Our Modesto facility also has butter manufacturing capabilities.

We supply our plants through a diversified network of direct ship dairies, Class III/IV manufacturers supplying milk for pooling access, a number of local cooperatives with organic and conventional milk supplies, and up until a few months ago our own dairy farm.

II. SUPPORT FOR MIG PROPOSALS

I am a member of the Milk Innovation Group ("MIG") and support its proposals at this hearing. I am here today to testify on MIG's Proposal 15.

A. Support for Proposal 15: Base Class I Skim Milk Price

We support the MIG proposal because it is a win-win position that is revenue neutral to the "higher of" formula and it also allows for the ability to manage price risk.[1] If USDA feels it must make a change, it needs to ensure that the playing field is level and that processors have the opportunity to hedge, just like producers do today. Most importantly the MIG proposal offers a predictable base Class I skim price that rolls forward with your hedging plan. Other adjusters that maintain "higher of" are simply unhedgeable with existing tools available and formulas that update a fixed adjuster on an annual date are convenient to talk about in a hearing setting but needlessly cumbersome when trying to actually place hedge orders +6 months out.

That said, this moment is ripe for reflection on why we still need a Base Class I Skim Milk Price at all? Increasing the base Class I skim price does almost nothing to help Class I direct shippers or organic farms who supply the fluid market. As an example, increasing the Class I price by an average of $1.76/cwt to the higher of only results in a $0.176/cwt higher pay price to the Class I shipper but $1.584/cwt more to the pool for the manufacturing shippers. This does not fix payment inequity; it makes it worse per dollar spent.

$1.70 Differential Class I Plant Example

	Cheese Depool Month			**Powder Depool Month**			**Average**	
Class I Mover	Current Formula	Higher Of		Current Formula	Higher Of		Current Formula	Higher Of
Class III	$ 20.00	$ 20.00	Class III	$ 15.00	$ 15.00		$ 17.50	$ 17.50
Class IV	$ 15.00	$ 15.00	Class IV	$ 20.00	$ 20.00		$ 17.50	$ 17.50
Class I	$ 19.94	$ 21.70	Class I	$ 19.94	$ 21.70		$ 19.94	$ 21.70
	Utilization			Utilization				
Class III	0%	0%	Class III	90%	90%		45%	45%
Class IV	90%	90%	Class IV	0%	0%		45%	45%
Class I	10%	10%	Class I	10%	10%		10%	10%
Blend	$ 15.49	$ 15.67	Blend	$ 15.49	$ 15.67		$ 15.49	$ 15.67
Pay Price			Pay Price					
Class III	$ 20.00	$ 20.00	Class III	$ 15.49	$ 15.67		$ 17.75	$ 17.84
Class IV	$ 15.49	$ 15.67	Class IV	$ 20.00	$ 20.00		$ 17.75	$ 17.84
Class I	$ 15.49	$ 15.67	Class I	$ 15.49	$ 15.67		$ 15.49	$ 15.67

[1] In the alternative, I would support IDFA's Proposal 14 on the Base Class I Skim Milk Price.

So if USDA were to raise the base Class I skim price, USDA would make it *harder* to attract milk for fluid use. That is the exact opposite goal of FMMOs and means the only proposal USDA should accept is MIG's.

I know some may argue that the problems I raise with attracting sufficient milk for fluid uses would be "fixed" through returning to the "higher of" and keeping Class I pegged even higher above the Class III and IV prices. That will only exacerbate problems, though. Higher Class I prices will result in more milk production, and that extra milk production will almost certainly make it into Class IV and be exported. Additional Class IV manufacturing will only depress the price instead and then there will be more depooling.

III. CONCLUSION

Thank you for the opportunity to speak today.

DATED this 8th day of September, 2023.

By */s/ Jacob Schuelke*
JACOB SCHUELKE