UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

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

CARMEL, INDIANA
AUGUST 2023

TESTIMONY OF SHAMROCK FOODS COMPANY, PART 1 REGARDING NATIONAL HEARING ON FEDERAL MILK MARKETING ORDER PROPOSALS

September 16, 2023

I. BACKGROUND

A. PERSONAL BACKGROUND

I am Timothy K. Kelly, Senior Vice President, General Manager for Shamrock Foods Company – Dairy Division headquartered in Phoenix, Arizona. Our corporate address is 3900 E Camelback Rd, Suite 300, Phoenix, Arizona 85018. My role with Shamrock includes all Profit and Loss (P&L) responsibilities for the Dairy division. I have been with Shamrock for thirty-one (31) years and have held various roles throughout my career. I personally hold Bachelor of Science and Master of Science degrees, in Agribusiness from Arizona State University. I am currently Chairman of the Milk Processor Education Program (MilkPEP), as well as sit on the Boards of IDFA's Fluid Milk Board and DMI's Innovation Center for U.S. Dairy.

B. COMPANY BACKGROUND

Shamrock Foods Company specializes in the manufacturing and distribution of quality food and food-related products through a family of companies including Shamrock Foods – the 5th largest foodservice distributor, and Shamrock Dairy – one of the largest family held milk companies in the country.

Shamrock Foods Company has two Class I and Class II Fluid Processing Facilities in Phoenix Arizona, and Verona Virginia. Shamrock is uniquely positioned with roots in Dairy Farming. Shamrock Farms Company, a 20,000 head dairy farm located in Stanfield, Arizona, is a separate entity and independently owned by the same family that owns Shamrock Foods Company.

With respect to Shamrock's two plants, our largest facility is in Phoenix (FMMO 131) and has been manufacturing Class I and Class II products since 1955. In 2001, this facility also began producing Extended Shelf Life (ESL) products which are now sold in all 50 states. Shamrock is vertically integrated and sources about 50% of its milk from Shamrock Farms Company with the remainder coming from the United Dairyman of Arizona cooperative (UDA).

Built in 2014, Shamrock's second facility in Verona, Virginia (FMMO 5), is a Class I and Class II fluid plant and manufacturers extended shelf-life milk and cream-based products. All raw milk is sourced from Maryland and Virginia Milk Producers Cooperative Association (MDVA).

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 20.

A. Proposal 20: MIG's Class I Differential

1. Grade A

All of the products we manufacture are for final consumption and therefore Shamrock's processing plants are required to receive Grade A milk. In my 31 years of experience negotiating contracts in our market areas, Grade B has never been a topic for discussion. I am not aware of any farmer, particularly in FMMO 131, that has or is producing Grade B milk. I strongly believe $.40/cwt should be removed from the base Class I differential since all pool milk must be Grade A regardless of whether it ever is shipped to Class I. 7 C.F.R. § 1005.12 and 1131.12.

2. Balancing

With respect to balancing, Shamrock currently pays for balancing twice, both as part of the over order premium paid to our cooperative suppliers and as a balancing charge ($.60 cents/cwt) under the FMMO within the Class I differential. More specifically, in one of our current co-op agreements, we are required to provide a rolling forecast to the co-op. If our demand is either higher or lower than that forecast, we can be assessed a "charge," within the Over Order Premium (OOP) portion of the contract. This "charge" can be as high as $.75 per cwt. The explanation of this "charge" is for the co-op to be able to manage their milk shed and help reduce any further costs – or in other words "balancing."

This arrangement proves that the expense of balancing goes back and forth between the supplier and Shamrock Foods Company – if Shamrock's investments in forecasting its needs accurately are successful, then the producer does not have the same balancing costs. But if

Shamrock's needs change in unexpected ways, then the producer is bearing more of that cost and is charging Shamrock Foods Company a commensurate expense for providing that service. The FMMO assumes that the producer is bearing this cost in every instance, and that is not true. Proving this fact, if Shamrock Foods Company is paying for this "balancing" within the OOP, then why does Shamrock have to again pay for an additional $.60/cwt for this service?

3. Incentive

As a reminder, in Phoenix, Shamrock sources milk from Shamrock Farms Company and the UDA. Sourcing milk has historically not been an issue. In fact, in my three decades of experience, there have only been a couple of times where the milk supply has been tight. In these limited instances, we were able to manage the demand with our co-op.

For Shamrock, the bigger concern is the need to support and incentivize innovation in the category. Shamrock has been considered an innovator in the milk space and has relentlessly invested in products, facilities, and technologies to continue to expand fluid milk's relevance, drive consumption, and grow demand for milk. Future investment in innovation across the entire industry is critical in stimulating demand for Class I products.

Today, milk competes on a much broader scale with other beverages than in the past. As it stands, the raw product costs for milk are already substantially higher than other beverages on the market, putting fluid milk at a disadvantage. Continuing to increase Class I prices will raise the price to consumers at shelf, which results in a reduction of milk volume harming both producers and processors. In addition, it puts further pressure on a milk processor's ability to innovate. To remain competitive in the marketplace, we cannot continue to see increases in raw milk prices. Simply passing increases along to consumers will, without a doubt, continue to decrease demand and consumption of Class I fluid milk.

I understand NMPF asserts that if make allowances are increased, regulated minimum Class I prices will decrease. But first, such a reduction is consistent with where the market currently sits and can always be dealt with through over-order premiums if necessary. Second, all

of NMPF (and other producer proposals) would significantly increase Class I prices such that the delta between Class III/IV and Class I would increase so much that our payments into the producer settlement funds would increase. This is unsustainable.

III. CONCLUSION

Shamrock Foods Company appreciates the opportunity to testify on this important subject. The Federal Milk Marketing Order system is complex and not easy to manage. Dairy Farmers and Milk Processors would benefit from a simpler and more stable system. As I stated earlier, I have been actively involved in the dairy industry for three decades. I sit on multiple industry boards and have close relationships with many Co-ops and NMPF leaders as well as dairy farmer board members. During my time in this industry, I have seen that when we work together, we can accomplish great things. The entire dairy industry would benefit from a concerted effort towards the collective good. Operating in silos is counterproductive and will result in increased prices that burden the consumer to the detriment of the entire industry. Price increases will stifle margins, limit innovation, and drive more milk to Class IV which will reduce the blended price to farmers. What we need to do is join together with shared solutions that grow demand for Class I fluid milk and make our industry stronger for the future.

DATED this 16th day of September, 2023.

By */s/ Timothy K. Kelly*
TIMOTHY K. KELLY