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 SHEHADEY FAMILY FOODS, LLC PART 2
REGARDING NATIONAL HEARING ON
FEDERAL MILK MARKETING ORDER PROPOSALS

September 16, 2023

I. BACKGROUND

A. PERSONAL BACKGROUND

My name is Jed Ellis. I am the Director or Procurement for Shehadey Family Foods based in Fresno, California. I have been working for Shehadey Family Foods, and its various affiliates, for five years now and prior to that I worked at Dean Foods for 11 years. Prior to my role as a Director of Procurement I worked as a Controller within the Finance and Accounting group. I also have an MBA and a bachelor's in accounting, both from Weber State University in Ogden, Utah.

I have had extensive involvement preparing, reviewing, and submitting FMMO monthly market reports for over 10 years across many different Federal Orders during my career within the dairy industry. I also prepared and filed reports for both the California and Montana State Orders. Further, within Shehadey Family Foods I am recognized as the dairy costing and FMMO reporting subject matter expert. This includes working closely with dairy farmers that supply our milk and the various Co-Ops that we use to purchase milk across the various states we operate in. In addition, I routinely lead milk component and costing training across our workforce and externally with many of the large retailers and customers we sell products to.

B. COMPANY BACKGROUND

Shehadey Family Foods has four manufacturing plants in three states. Producers Dairy in Fresno, California; Producers Dairy in Fairfield, California; Model Dairy in Reno, Nevada; and Umpqua Dairy in Roseburg, Oregon. Our corporate headquarters are at 250 E. Belmont Ave. Fresno, California. Our plants are fully regulated distributing plants in Federal Orders 51 and 124. Our facilities manufacture Class I fluid milk and Class II ice cream and cultured products as well as bulk items sold to food processors and cheese plants. Shehadey Family Foods is a small business as defined by the SBA.

Our company first began as Producers Dairy Delivery Company in December 1932 in Fresno, California. In 1949, Larry Shehadey bought an interest in that then-small milk delivery business. By 1955, Larry Shehadey bought out the other partners such that Producers Dairy has been an entirely family-owned, independent company ever since. And though Larry did not have a college degree, he worked incredibly hard to make Producers Dairy the number one dairy in the area in a very short period of time.

One of Larry Shehadey's creative and pioneering marketing decisions was to associate Producers Dairy with Hopalong Cassidy, who, for the benefit of younger generations, was a well-known and respected fictional cowboy who was also just called "Hoppy" in TV shows that ran in the 1950s and 1960s. This helped build up Producers Dairy's market of its Class I products by marketing and creating brand recognition of our products with efforts such as putting photos of Hoppy on Producers Dairy's milk containers and trucks, distributing product coupons available at grocery stores to attend Hoppy's Saturday matinees, and creating a Producers Dairy radio jingle that ran on local stations.

In 1957, Larry Shehadey built his first dairy cow milking operation, which he named "Bar 20 Dairy" after Hoppy's ranch. Over the years, the Shehadey family continued to invest and expand the Bar 20 Dairy cow milking operations to continue to control the quality of the milk that goes into Producers Dairy products.

As a recent example of the significant investments made, Bar 20 Dairy was named the 2023 Innovative Dairy Farmer of the Year by IDFA and Dairy Herd Management magazine following installation of a methane digester in 2021. The Bar 20 methane digester is paired with fuel cells on the dairy farm to generate renewable electricity from the methane. Through a partnership with BMW North America, Bar 20 provides combustion-free, dairy derived electricity to the utility grid to power electric vehicles. The renewable energy generated results in carbon emission reductions equivalent to providing clean power to more than 17,000 electric vehicles per year. Bar 20 Dairy's methane digester captures more than 25,000 tons of CO2 emissions annually, equivalent to the carbon sequestered by approximately 30,000 acres of U.S. forests in one year. Along with the solar power production, Bar 20 is actually a net positive producer of energy in California.

Operating a vertically integrated business allows the Shehadey family to protect the quality of Shehadey Family Foods' products and, in turn, the quality of its brand. Bar 20 Dairy's operations have been key and fundamental to Producers Dairy's reputation of providing some of the highest-quality milk available in the market. Bar 20's first dairy farm included a glass viewing room to accommodate busloads of school children taking field trips there. Shehadey Family Foods' brands benefit from Bar 20 Dairy's unwavering commitment to "healthy, happier cows" on its farms and exceptional milk quality. Bar 20 is Validus certified for its farm practices and animal welfare.

We pride ourselves on operating an efficient plant, distribution system, and supply chain. We understand that price is a critical component to our business, and we work hard to control and manage our operating costs. We make significant reinvestments into our assets and technology to remain as efficient and as lean as possible in our operations. But we have a great deal of urban market customers for our finished products (in deficit areas), and we have to absorb the cost of delivering to those markets.

Our customers appreciate our family-owned status, our high-quality products (including our ability to affect and ensure quality all the way from the farm to our customers), our focus on customer satisfaction, the strength of our brands, our knowledge of the industry and farms, our reinvestment into the future, and our philosophy and direction as a business.

II. SUPPORT FOR MIG PROPOSALS

Shehadey Family Foods is a member of the Milk Innovation Group ("MIG") and supports 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

At Shehadey Family Foods we do not receive Grade B milk and cannot use it for production. In addition, I have never been asked if we are interested in Grade B farm milk. Moreover, I am unaware of any FMMO regulated Class II, III or IV operation receiving Grade B milk. NASS reports that for milk marketed by producers in California and Oregon, 97% and 100% (respectively) is fluid grade (*i.e.*, Grade A).[1] There is no reason to compensate farmers both in the Class III and IV formulas and again in the Class I differential for maintaining Grade A status.

2. Balancing

Shehadey Family Foods purchases raw milk from three different cooperatives as well as the Bar 20 Dairy family farm. The Class I milk differential factors in $0.60 per CWT as a balancing charge, ignoring that oftentimes Shehadey Family Foods pays for balancing itself or duplicating the costs charged by our cooperative milk supplies for balancing.

At Shehadey Family Foods, we have invested heavily to balance our own milk supplies. We have made significant efforts to team up with farmers to reduce our variability in daily milk receipts. We have added additional silos and have raw milk receiving staff onsite seven days a week to receive raw milk even on days our facilities do not even manufacture.

We are required by our cooperative suppliers to place our milk orders days in advance with minimal changes allowed to these orders. Shehadey Family Foods provides quarterly forecasts. We then order milk a week in advance in line with the forecasts. Each week, we are only allowed to cancel a small portion of our orders (about 3%), and we rarely use even that minimum exception. This predictability that we provide to our suppliers comes at a cost to us – when we need more milk, we can find ourselves stuck, and when we need less milk, we still have to absorb the cost of processing those loads.

Currently all three of the cooperatives that we source raw milk from charge an additional premium for raw milk balancing. In order to reduce this premium and receive a credit for balancing, we must receive milk evenly throughout each week. One cooperative gives the most reduction based on lowest variation from the daily average per week. Another cooperative uses the lowest days receipt per week multiplied by number of days to determine how much milk is

[1] USDA NASS, Milk Production, Disposition, and Income 2022 Summary (April 2023), p 11.

eligible for reduced price. We aim to qualify for these credits whenever possible – and when we do not, we pay for this balancing cost outside of the FMMO system. As a result of this, we bear the cost burden for balancing raw milk and have, and will continue to make, significant investments to improve our balancing capabilities.

3. Incentive

Shehadey Family Foods has had no issues finding an adequate supply of raw milk at all facilities.

The current incentive in the differential has resulted in an oversupply of milk relative to fluid use. It needs to be reduced so that market signals can stabilize. For each of the last three years, multiple cooperatives have reached out and offered raw milk exactly at the Statistical Uniform Price due to oversupply during the spring and fall seasons. Some have even offered additional incentives.

Part of my role for a few years at Dean Foods was to account for excess raw milk shipped out of Montana. Processors were responsible for assisting in finding a buyer for any raw milk not needed by the in-state processors. The Montana pool would help cover any milk sold below cost. During the spring flush, we would typically have to settle at Class IV minus $4 per cwt at a manufacturing plant in Idaho. Although this example may be extreme, this is an entirely possible future in other regions if there is an oversupply of raw milk and Class I facilities continue to close operations.

I also think it is critical that we think about our consumers here. If milk prices go up, what will that cost the federal government? What will that do to school milk? It will cost the federal government a lot of money (or risk losing this critical source of consumption and opportunity for getting nutritious products to our youth).

The closure of processing plants across the country and the current state of fluid milk sales demonstrates that the current system is not serving the market reality we are facing. USDA ERS data shows the number of fluid milk plants decreasing from 2,216 in 1970, to 605 in 1990, and 332 in 2010.[2] In the last four years, the two largest Class I bottlers have both filed bankruptcy.

One of those bankruptcies was Dean Foods. Through that bankruptcy process, we acquired our Model Dairy facility in Reno, Nevada. We were the only bidder for that facility who planned to operate the plant as a going concern. In fact, the next highest bidder had planned to close the plant and turn it into a parking lot. Had that facility closed, approximately 100 jobs would have been lost, a company that began back in 1906 would be gone, along with a critical source of Class I milk supply in Northern Nevada. After our acquisition of Model Dairy, we made significant investments in that plant to turn it from a failed operation to a successful part of our company.

With the number of processing facilities that have closed, Class I bottlers are having to ship further than ever before and with declining consumption, more and more stops are being added to drivers' loads. These costs are extremely difficult to pass on, if not impossible. Having Class I minimum prices set too high only exacerbates these problems.

At Shehadey Family Foods, we certainly understand the challenging industry conditions are not just unique to Class I bottlers and that farmers are also faced with extreme headwinds. While we want to pay fair market value for quality raw milk, we cannot change the economic realities that we all, as an industry, are facing. We must be given the flexibility to respond to those economic challenges, and setting a realistic minimum price is a critical part of that response.

Likewise, if the issue here is farmer pay, then the only direct way Shehadey Family Foods can address that is to be able to pay more money to our direct ship farmers. In order to free up the resources needed to do that, we need to lighten the economic burden of the FMMO system. And if we want to support independent farmers, having this flexibility is particularly important, because

[2] USDA ERS: Number and average size of U.S. fluid milk product plants; Found at: https://www.ers.usda.gov/webdocs/DataFiles/48685/milkplants_1_.xlsx?v=8507

it allows us to tailor a milk procurement strategy to better meet both our needs and the direct shippers' needs – as well as, and most importantly, allows us together to better serve customers.

In the Class I formula today, there is an incentive cost of $0.60 per cwt to encourage service of Class I plants. Our largest facility purchases milk from an average of 26 miles from our facility, and a sizeable portion from the Shehadey family farm that is 13 miles away. With location proximity, our efforts to help receive milk evenly, and paying for delivery, there is already more than enough incentive to supply raw milk to Shehadey's facilities.

III. CONCLUSION

We are deeply concerned about becoming another statistic and feel like we are fighting an uphill battle just to survive. In addition to the consumers and communities that depend on us, there are over 1,000 people whose families rely on us for their jobs, many of which like me have worked their entire lives in the dairy industry.

As a Class I bottler, we are confident that we can do what is needed to attract the high-quality milk we bottle and grow this industry to the benefit of all. I wish the resources spent here were focused instead on uniting as an industry and getting nutritious dairy products to consumers. I am optimistic that if USDA loosens the regulatory burden on us and our fellow Class I processors, we will get there, together.

DATED this 16th day of September, 2023.

By */s/ Jed Ellis*
JED ELLIS