

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 1
REGARDING NATIONAL HEARING ON
FEDERAL MILK MARKETING ORDER PROPOSALS**

August 28, 2023

I. BACKGROUND

A. PERSONAL BACKGROUND

My name is Jed Ellis. I am the Director of 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 Bachelors in Accounting, both from Weber State University in Ogden, UT.

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 my current company I am recognized as the dairy costing and 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 product 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 by Federal Orders 51 and 124. Our facilities manufacture Class I fluid milk and Class II ice cream and cultured products and bulk items sold to food processors and cheese plants.

II. OPPOSITIONS TO OTHER PROPOSALS

Shehadey Family Foods is opposed to National Milk Producers Federation Proposal 1 and National All Jersey Proposal 2.

As a Class I handler, having an increased level of non-fat solids, protein and other solids is of no value to us or our customers as it does not increase the amount of volume of product we can bottle. Retailers do not pay Class I manufacturers based on component tests, but only on which item they are purchasing at a fixed price. I can tell you that Shehadey Family Foods would not be able to pass along to the market this increased cost from Proposals 1 and 2. Class I processors like us can't standardize these components, so there is no way to capture them and use them another way or get more final product from the raw milk. To re-emphasize that point, the costing and pricing models that our largest retailers use to price the Class I milk they buy from us are only based on Skim and Butterfat, and therefore they do not directly pay for other components nor ask for component levels. Class I is already facing such significant challenges and has been on a well-publicized decline for years now. There is no good reason to further burden Class I processors with costs they cannot recuperate. This would only further Class I's decline, to the detriment of everyone in the system, farmers, and processors alike.

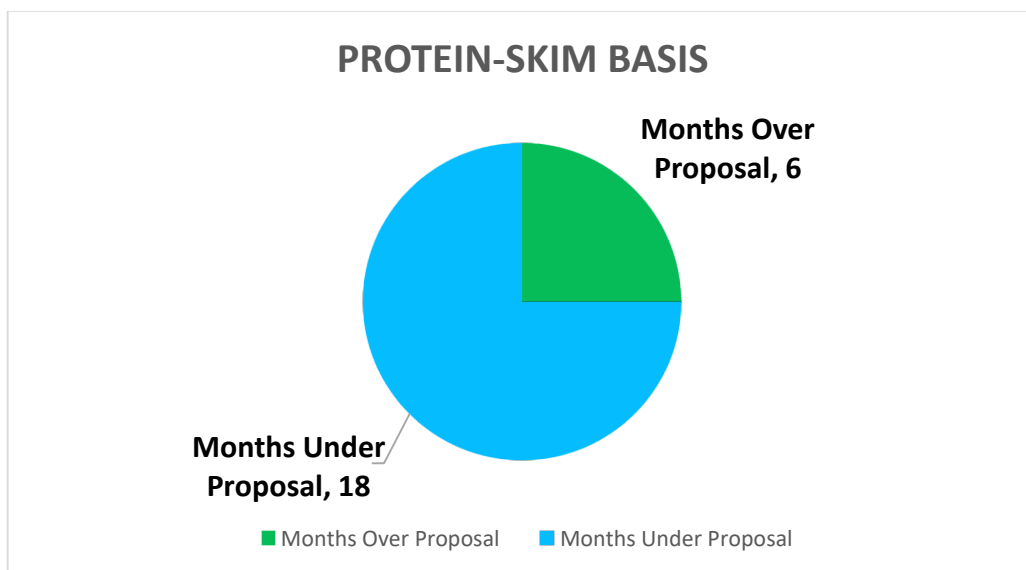
I also note that raising component levels for Class I also unfairly pressures farmers to invest money and resources into raising components when the Class I fluid market does not require them to do so. We work closely with our suppliers, who are a mixture of own farm production and cooperatives. I have read a lot of NMPF testimony on raising component levels and the costs and efforts for the same. We certainly appreciate the work and expense our suppliers have put into their operations and how those can go towards raising component levels. But as a Class I processor, we do not need and cannot use those components. So we wouldn't want our suppliers to be spending this money to raise their component levels when we can't use them. Additionally, some suppliers may not want or be able to make these investments, so may have lower components. As long as they meet the standards of identity, we still want to be a home for their high-quality milk. As a result, our view is that the markets are currently operating efficiently within the Federal Orders in which we operate in as the Co-Ops are able to efficiently determine how best to direct the shipments of their dairy farmers milk to the processing plants (Class I and II versus Class III

and IV) that require the components they need. Proposals 1 and 2 would unnecessarily burden those farmers by creating a policy that Class I milk will and should have certain high levels of components.

Looking at our actual receipts and utilization also shows how misaligned Proposals 1 and 2 are for Class I processors. In 2021 and 2022 combined, Shehadey Family Foods purchased 2.5 billion pounds of Producer milk.

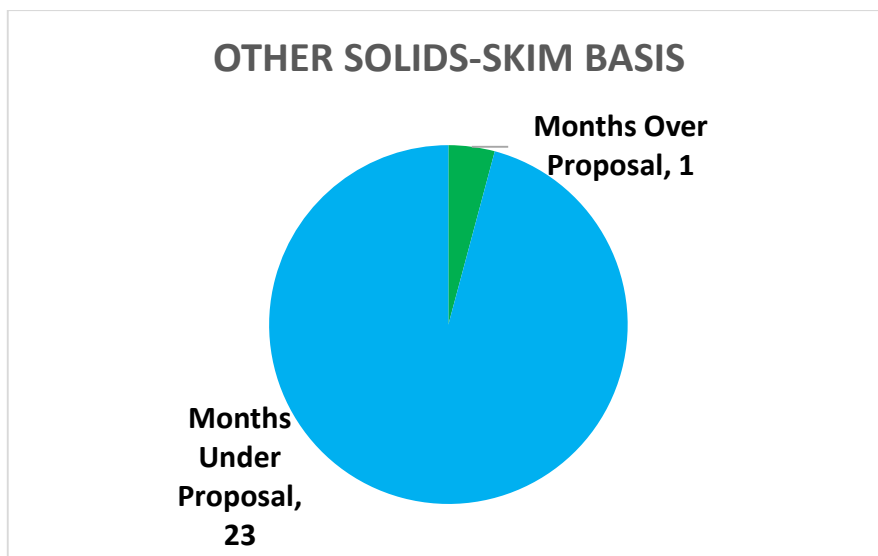
Proposal 1 proposes that protein component factor be increased to 3.39 from 3.1. With that same 2.5 billion pounds and on monthly averages, only 446.7 million pounds have met or exceeded the proposed percentage, or 17.6%. Again, an overwhelming majority of the time, over 80%, Shehadey did not receive protein at the levels in this proposal. Our current average for protein this year is 3.22% of milk (3.35% of skim), in between the current and proposed baseline.

Looking at it from another angle, I considered Shehadey’s four plant weighted average for protein on a skim basis (meaning I averaged the protein levels across all four plants). On that metric, Shehadey would be over the Proposal only six out of the 18 months.



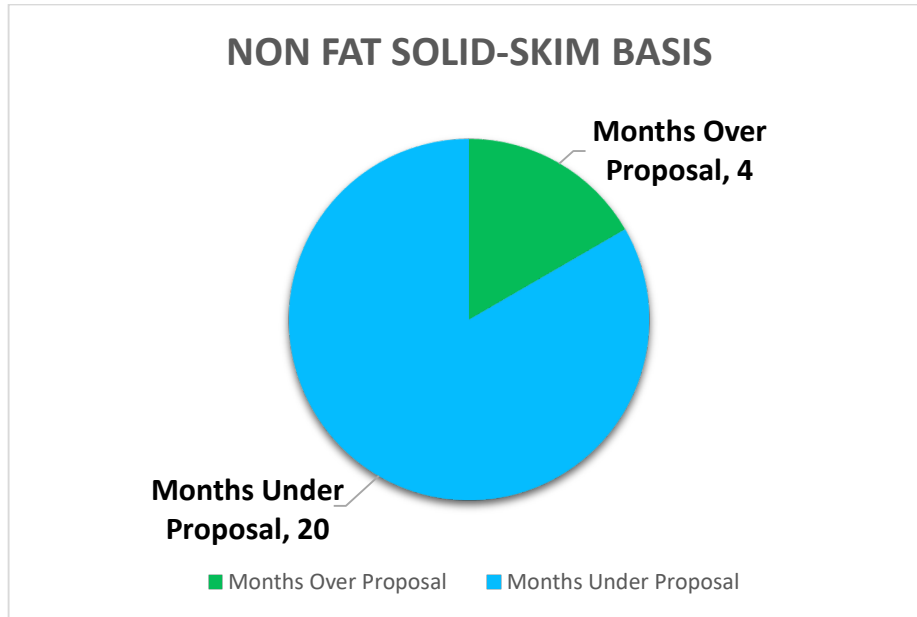
Proposal 1 also proposes that other solids be increased to 6.02% from 5.9%. I did the same exercise, with that same 2.5 billion pounds, based on monthly averages, only 221.5 million pounds have met or exceeded the proposed percentage, or 8.8%. Over 90% of the time, we received lower levels of other solids than the proposal. Our current average for other solids is 5.77% (6.00% of skim), in between the current and proposed baseline.

Then looking at it as a weighted average across our four plants, Shehadey would have met the Proposal level for other solids only once.



Proposal 1 proposes that non-fat solids component factor be increased to 9.41 from 9.0. I reviewed Shehadey’s records to see how this compared with the components that we actually received for the last two years. Based on monthly averages in this timeframe on the 2.5 billion pounds, only 254 million pounds of milk would have met or exceeded the proposed percentage, or just over 10%. In other words, about 90% of the time, Shehadey did not receive non-fat solids in our milk at the levels proposed by Proposals 1 and 2. For this year, our current average nonfat solids is 8.99% (9.35% of skim), in between the current and proposed baseline. On a weighted

average basis across plants, Shehadey would have met the Proposal level only four out of 20 months.



Finally, looking at the spread of Shehadey’s component factors over the last two years, the low-end is around the current formula component factors.

Shehadey Milk Receipts Skim Components			
	Protein % Skim	Other Solids % Skim	Nonfat Solids % Skim
FMMO Current ^[1]	3.10	5.90	9.00
Proposals 1 and 2	3.39	6.02	9.41
Shehadey Minimum ^[2]	3.14	5.94	9.12
Shehadey Maximum ^[3]	3.63	6.10	9.65
% Months with Plants Below Proposal^[4]	71%	65%	86%

^[1] This data is from 7 C.F.R. §1000.50.

^[2] For competitive reasons, Shehadey will not identify the plant(s) or supplier(s) for this milk.

^[3] For competitive reasons, Shehadey will not identify the plant(s) or supplier(s) for this milk.

^[4] Calculated for a 24 month period from January 2021 – December 2022 for Shehadey’s four fluid milk plants based on receipts as reported in Shehadey’s individual monthly MA Reports.

Having these inflated component tests in the Class I advanced pricing formula is placing an unwarranted financial burden on processors in a declining market facing inflation pressures and increasing challenges from non-dairy alternatives. In addition, these component tests are not reflective of the actual milk being received into Class I plants, including our four facilities. Based on the components received by Shehadey Family Foods, it is unfair to ask us to pay for component tests that we do not receive nor need. As stated above, our view is that the markets are currently operating efficiently within the Federal Orders in which we operate in as the Co-Ops are able to efficiently determine how best to direct the shipments of their dairy farmers milk to the processing plants (Class I and II versus Class III and IV) that require the components they need. The price announcement is a minimum announced price, and having components overstated in the formula fails to make it a minimum. USDA should reject Proposals 1 and 2.

Thank you for the chance to speak today.