

## **Support for Increasing the Make Allowance – Supporting the NMPF Proposal # 7**

My name is Michael John, I am Executive Vice President of Milk Marketing and Ingredient Sales for Maryland and Virginia Milk Producers Cooperative, Inc. (“MDVA”). MDVA is located at 13921 Park Center Road, Suite 200, Herndon, VA 20171 and is a member of National Milk Producers Federation (“NMPF”). I serve as a member of NMPF’s Economic Policy Committee, and a member of the Make Allowance Working Group now chaired by Christian Edmiston of Land O’Lakes. The Make Allowance Group had the responsibility of reviewing and developing recommended updates to the Federal Order Make Allowances. These recommendations became the foundation for NMPF’s proposal number 7. Of the products currently surveyed for Federal Order pricing, two pertain to MDVA’s operations, butter and nonfat dry milk. MDVA fully supports the increases in the make allowances for butter and nonfat dry milk as outlined in NMPF’s proposal number 7 and would request adoption of these initial increases:

- Butterfat Make Allowance: From current make of \$0.1715 per pound of butter to \$0.2100 per pound of butter.
- Nonfat Solids Make Allowance: From Current make of \$0.1678 per pound of nonfat dry milk to \$0.2100 per pound of nonfat dry milk.

MDVA is a cooperative located and operating in the Mid-Atlantic and Southeast geographies of the United States. MDVA is a cooperative made up of around 920 dairy farmer members who produce around 2.3 billion pounds of milk each year. The overwhelming majority of MDVA’s member milk stretches between two Federal Orders, Federal Order 1 and Federal Order 5. MDVA’s members own and operate three Pool Distributing Plants, two in Federal Order 5 and

one in Federal Order 1. In addition, MDVA's members own and operate two Pool Supply Plants, one in Federal Order 5 and one in Federal Order 1.

**MDVA Pool Supply Plants:**

Federal Order 1	Laurel, MD	Pooled Supply Plant
Federal Order 5	Strasburg, VA	Pooled Supply Plant

Throughout its history, the majority of MDVA's milk is received and processed by milk plants serving the Class I market including the three plants owned by our members. With the majority of our milk serving the Class I market, the remaining percentage serves our two member owned Pool Supply Plants. One of these manufacturing plants is capable of manufacturing bulk butter along with nonfat dry milk. The other facility only has the capability to manufacture bulk butter.

While MDVA has the ability to manufacture a sufficient amount of butter, MDVA's annual butter production is highly seasonal, which has a direct impact on our cost of converting raw milk to butter depending on the season. Therefore, my focus will center around converting raw milk into nonfat dry milk, which is a more stable component for cost discussions.

Additionally, MDVA does not operate cheese plants so I will not be addressing the make allowances for cheese and whey.

MDVA's nonfat dry milk and butter manufacturing provides a needed service to our geographical marketplace. Our term for that service is called a "balancing service." By making sure our Class I customers have sufficient supply available to meet their monthly, weekly, and

daily demands, we maintain a reserve supply of raw milk year-round. Our two pool supply plants give the market the capacity allowing us to maintain this reserve supply. The historical Class I market processes a very perishable product, it requires “just in time” processing to meet consumers’ needs. Customer needs fluctuate based on changes like school demand, holiday specials, retail promotions, weather events, and more recently based on the pandemic shut downs and impacts related to Covid-19. This balancing service does affect our cost of converting raw milk into nonfat dry milk and butter. Those of us in the industry with fluctuating market factors will have a higher cost of conversion compared to those who have a more straight-line production because we have to make shorter-term decisions to respond to these fluctuations in need and because we make these “just in time” manufacturing decisions to meet consumers’ needs. For these reasons, we urge USDA to approve the increase in make allowances outlined in NMPF’s proposal in a manner that will preserve producers’ ability to absorb the increase and until such time that an audited cost survey can be approved and deployed.

**The Request for Increase in Make Allowances:**

For butter and nonfat dry milk, MDVA support the following make allowance increases:

- an increase of \$0.0385 per pound in the butter make allowance
- an increase of \$0.0422 per pound in the nonfat dry milk make allowance

The make allowances have not been increased since 2008 using data from as early as 2006.

Quoting from NMPF’s request for a National Hearing, “From discussions with members, a review of input price data and the output from the University of Wisconsin cost of manufacturing survey, it is clear that dairy product processing costs have increased, and

therefore, average manufacturing costs for butter, nonfat dry milk, cheddar cheese and dry whey are considerably higher than the current Federal Order make allowances". MDVA has experienced the same cost increases to converting raw milk to nonfat dry milk and butter. For example, MDVA has seen a sixty four percent increase in our standard cost to convert raw milk into nonfat dry milk compared to our previous cost standard set approximately 12 years ago. Because this increased cost cannot be captured in the sale of a commodity product to the marketplace, the only option we have is to place that cost recapture burden as a "market adjustment" on our members' monthly milk statements, which requires that our members absorb the impact of this cost increase rather than allowing it to be passed through to consumers on a much smaller pro-rata scale.

MDVA supports NMPF's phased implementation for make allowance increases. While costs have increased dramatically since 2006, to immediately make up the full scope of that needed increase not just in butter and nonfat dry milk but in all commodities would be very disruptive to dairy farmers' monthly milk pay prices. We agree that an interim step is needed to give some initial relief in two ways. First, it provides relief to the true cost of converting raw milk to the four basic commodities. This much needed relief will help to ensure that MDVA can continue to operate our two manufacturing facilities to continue to provide a valuable service to our marketplace.

Second, we believe cooperatives like ours, who made the necessary investments in manufacturing plants and who provide a valuable balancing service to the marketplace, are over-burdened when the Federal Order make allowances don't properly reflect the cost of converting raw milk to storable commodities. Consequently, we believe that cooperatives like

ours won't continue to make further investments in manufacturing either to upgrade current facilities or invest in new technologies without some cost adjustment. As a result, the whole marketplace will suffer without an increase.

### **Future Mandatory Cost Reporting**

Having no cost increase in make allowances for over fifteen years has caused a financial burden to our members' cooperative. As I have already stated, we have seen a dramatic increase in conversion costs to make both nonfat dry milk and butter. For MDVA this has resulted in a lack of needed reinvestment in our two pool supply plants. This lack of needed reinvestment in itself causes a higher cost of conversion which in turn causes a higher burden on our members' monthly milk checks while we provide a necessary service to our marketplace.

It is imperative that there is a process in place for manufacturing plants to report conversion costs on a periodic basis. MDVA fully supports NMPF's proposal that USDA be given the authority to conduct mandatory cost studies giving the industry more timely and accurate cost conversion information. With that information in hand, the industry stakeholders can then seek to make more timely requests for future hearings to address needed make allowance changes. We believe a mandatory process will provide the necessary opportunity for the industry to remain current to the current cost of conversion resulting in a more stable market for our dairy farmer members.

I want to thank USDA for having this hearing and thank you for the opportunity to speak on behalf of MDVA's dairy farmer members.