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Testimony Outline for the USDA Federal Milk Marketing Hearing
In Support of NMPF Proposal to Update the Federal Milk Marketing Order Class I Surface Map
September 5, 2023

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Background

Thank you for the opportunity to testify. My name is Scott Werme. I retired from Agri-Mark, Inc. (Agri-Mark) in 2021, after a 31-year career with the cooperative. During my career, I held positions in nearly every corner of the cooperative, starting as a field representative and moving to other supervisory roles such as plant manager, plant accounting, and hauling and transportation manager. My last position was Senior Vice President of Membership, a role that included membership services and overseeing bulk fluid sales of member milk to the region's milk processors. Agri-Mark retained me, post-retirement, as a consultant to assist with special projects and the transition of leadership where I have experience and expertise.

Agri-Mark, a dairy cooperative in the Northeast, is owned and operated by over 550 dairy farm families across New England and New York. Our members are pooled in Federal Order 1. The cooperative has been marketing milk for dairy farmers since 1916 and has headquarters in Andover, Massachusetts and Waitsfield, Vermont. Those farm families supply more than 3.2 billion pounds of farm-fresh milk that we use to make our award-winning Cabot branded cheeses, dairy products, and ingredients. Agri-Mark operates three cheese manufacturing facilities located in Cabot, Vermont; Middlebury, Vermont; and Chateaugay, New York. These are pooled supply plants. The cooperative manufactures and markets valuable whey proteins around the world produced at the Middlebury, Vermont facility. Agri-Mark also operates a butter-powder facility in West Springfield, Massachusetts that is a non-pooled supply plant. Additionally, Agri-Mark supplies fresh fluid milk to the region's largest dairy processors.

I am testifying today on behalf of Agri-Mark and our 550 dairy farm families. Having marketed milk for the cooperative for seven years, I have considerable experience in moving milk through the region and within the confines of Federal Order 1. Agri-Mark is in full support of the National Milk Producers Federation (NMPF) proposal for modernization of the Federal Milk Marketing Orders (FMMO). More specifically, Agri-Mark supports NMPF Proposal 19: Update the Class I differential pricing surface throughout the United States.

Introduction

The current Class I pricing surface map was a product of the Federal Order Reform process that concluded with implantation of new or revised regulatory policies in 2000. NMPF's proposal to evaluate the Class I differentials is critical to our overall efforts of FMMO modernization. Since 2000, the dairy industry and landscape has changed significantly. The number and location of farms and fluid milk processors, consumer demand, and population centers have all changed dramatically. Witnesses who

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have preceded me have entered data into the hearing record to support this. A driving factor for milk marketing over the last 20 years is the enormous change in costs of transporting raw milk.

As others mentioned in previous testimony, the NMPF proposal for Class I differentials has its foundation in modeling results published by the University of Wisconsin. The model's outputs using data from May 2021 and October 2021 were averaged to reduce variability. As has been discussed previously, individual cooperative representatives were broken up by region to allow for more detailed and specific conversations. The Northeast working group was then tasked with comparing the results of the model to see if estimated milk values derived from the model were consistent with actual milk movements and historical relationships. Ultimately, the group was asked to determine if adoption of the model's output would help to promote orderly milk marketing, given current or future plant locations.

In the Northeast region, most counties fell within a reasonable relationship with the average of the model's May 2021 and October 2021 outputs. Compared to current Class I differentials, the model resulted in much higher values at nearly all locations. Justification for these increases were due to significant changes in the dairy landscape over the past 20 years, especially changes in historical milk movements. I will focus my testimony on the areas of the Northeast in which I have expertise and where the NMPF proposed differentials differ significantly from the output of the model, namely, Maine, Northern Vermont, and Northern New York.

Maine

The differentials generated by the model were lower for Maine and southeastern New Hampshire. However, there are two Class I plants in Cumberland County Maine that rely on local milk. If the model results were adopted unchanged, the respective differentials would have incentivized Maine milk to leave the state for plants in eastern Massachusetts. Additionally, the southern New Hampshire milk would have been incentivized to flow into western Massachusetts. To prevent incentivizing counterintuitive milk movements, the Northeast working group agreed to flatten the proposed Class I differentials for the Maine zones to keep the relationships consistent with the current Class I differentials. The average increase for Class I differentials in Maine was $0.23 per hundredweight above the model output.

Northern Vermont

In Vermont's northernmost counties, the Northeast working group reduced the differentials by $0.35 per hundredweight from the model results. In this region, there are no significant delivery points, and none are expected in the near future. Milk generally flows to eastern Massachusetts, western Massachusetts, and Vermont points further south. The lower differentials in northern Vermont provide more of a slope to incentivize milk movements and better offset the cost of moving milk to these locations.

Northern New York

In Northern New York, the Northeast working group reduced differentials $0.30 per hundredweight below the model's output. This was especially necessary for the significant supply in St. Lawrence and Jefferson Counties. Milk from these counties needs to move east. The lower differentials at the source

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counties increase the slope needed to incentivize appropriate milk movements to northeastern New York and northern and central Vermont.

Summary

In summary, Class I differentials are outdated and need modernization to reflect the changes in the dairy industry since 2000. The University of Wisconsin model provides a sound and logical basis for updating Class I differentials. However, as noted above in the examples of Maine, Northern Vermont and Northern New York, modifications to the model results are necessary to preserve actual milk movements and historic relationships, and to maintain orderly marketing of milk.