Class I Update Testimony

United States Department of Agriculture

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Testimony Presented By:

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My name is Brad Parks, I am Director Financial Planning & Analysis, Business Development with Michigan Milk Producers Association (MMPA) located in Novi, Michigan.

My career in the dairy industry started 36 years ago and has evolved into executive level positions managing dairy processing plants and the customer relationships that are associated with the business. My experience is primarily Class I and Class II products along with other dairy ingredients. The first 15 years of my career was with Country Fresh Dairy/Dean Foods in Michigan where I held a variety of positions from plant controller to Vice President of Administration. Subsequent positions include Vice President Operations for a national ice cream manufacturer in Dallas TX, General Manager of a Class I plant in Wisconsin, and President of Creative Edge Design Group, a division of Superior Dairy located in Canton, Ohio. Superior Dairy was acquired by MMPA in January 2022.

MMPA extends its appreciation to the Secretary of Agriculture, the Dairy Division staff and everyone involved in this process for holding this important hearing.

MMPA is a farmer owned cooperative established in 1916. We have more than 1,000 members in Michigan, Ohio, Indiana, and Wisconsin and market 5 billion Grade A milk pounds per year primarily in Federal Order 33.

MMPA operates two ingredient balancing plants in Michigan that produce bulk butter, powder, liquid dairy products including specialty dairy blends, cream, and condensed milk products. MMPA also operates a small cheese plant in Middlebury, Indiana and a fully regulated Class I fluid milk plant in Canton, Ohio. We also operate a state-certified laboratory at the headquarters location in Novi, Michigan. MMPA is a member of NMPF.

This testimony is presented in support of **Proposal 19: Update the Class 1 price differential surface throughout the United States as proposed by National Milk Producers Federation (NMPF).**

I will share comments in support of NMPF's proposal to revise the Class 1 surface map that has been in place since 2000. My comments will focus on the Michigan and Ohio portion of the Mideast market.

MMPA fully supports the NMPF proposals to modernize the Federal Milk Marketing Order (FMMO) system, and specifically, **Proposal 19: update the Class 1 Differentials throughout the US.**

Mideast Milk Market Data

Reviewing the changes from 2000 to 2022.

- The number of producer farms has declined -66% from 10,030 in 2000 to 3,420 in 2022.
- The number of Class I plants declined by -42%, from 57 plants in 2000 to 33 in 2022.
- The Class I milk utilization has declined -21% from 47% in 2000 to 37% in 2022.
- The Uniform milk price average was $12.08 in 2000 and $23.45 in 2022, a 94% increase (see Table 1).

Milk Production (reference Table 2) in Michigan, Illinois, Indiana, and Ohio has increased from 14.7B Lbs. in 2000 to 23.4B Lbs. in 2022 an increase of 8.7B Lbs. a 59% increase. Michigan accounts for 68% of the milk production increase.

- Michigan has increased milk production +6B or +106% from 5.7B Lbs. to 11.7B
- Indiana has increases 2B Lbs. of 82%
- Ohio has increased 1B Lbs. +24%
- Illinois has declined of (.38B) Lbs. or -18%

Milk Production per cow increased in all 4 states with Michigan and Indiana seeing the largest increase of 44% and 43% respectively (see Table 3). The average Increase in cow numbers for the 4 states is +14% with Indiana and Michigan having the largest increase of +55% and +43% while Illinois had a -45% decline and Ohio had a -5% decline in cow numbers (see Table 4).

Table 1 Comparison of Mideast Area Market Statistics 2000 to 2022

Mideast (source: Mideast Market Administrator Statistical Summary)						
Year	**Producer Pooled Milk Pounds (Bil Lbs)**	**Producer Farms**	**Uniform Price**	**PPD**	**Class 1 Milk Util**	**Class 1 Plants**
2000	**14.1**	**10,030**	**$12.08**	**$2.34**	**47%**	**57**
2005	18.0	8,843	$17.77	$0.66	46%	42
2011	15.9	6,714	$19.54	$1.18	45%	39
2017	20.2	4,988	$16.57	$0.39	45%	38
2022	**16.7**	**3,420**	**$23.45**	**$1.21**	**37%**	**33**
% Change		-66%			-21%	-42%

Table 2 Comparison of Milk Production by State 2000 to 2022

Milk Production By State (Bil Lbs) (source USDA NASS May 4, 2023)					
Year	Illinois Milk (Bil Lbs)	Indiana Milk (Bil Lbs)	Michigan Milk (Bil Lbs)	Ohio Milk (Bil Lbs)	**Total (Bil Lbs)**
2000	**2.09**	**2.42**	**5.71**	**4.46**	**14.68**
2005	1.96	3.17	6.75	4.74	16.62
2011	1.90	3.55	8.48	5.14	19.07
2017	1.93	4.26	11.23	5.59	23.02
2022	**1.71**	**4.41**	**11.74**	**5.52**	**23.39**
% Change	-18%	82%	106%	24%	59%

Table 3 Comparison of Milk Production per Cow by State 2000 to 2022

Milk Production per Cow (Lbs) (source USDA NASS May 4, 2023)					
Year	Illinois Milk per Cow (Lbs)	Indiana Milk per Cow (Lbs)	Michigan Milk per Cow (Lbs)	Ohio Milk per Cow (Lbs)	**Avg**
2000	**17,450**	16,568	**19,017**	**17,080**	**17,529**
2005	18,827	20,295	21,635	17,567	19,581
2011	18,510	20,657	23,164	19,194	20,381
2017	20,742	22,754	26,302	21,284	22,771
2022	**21,425**	**23,726**	**27,430**	**22,076**	**23,664**
% Change	23%	43%	44%	29%	35%

Table 4 Comparison of Cow Numbers by State 2000 to 2022

Cow Numbers (000) (source USDA NASS May 4, 2023)					
Year	Illinois Cows (000)	Indiana Cows (000)	Michigan Cows (000)	Ohio Cows (000)	**Total**
2000	**146**	120	**300**	**262**	**828**
2005	104	156	312	270	**842**
2011	98	172	366	268	**904**
2017	93	187	427	264	**971**
2022	**80**	**186**	**428**	**250**	**944**
% Change	-45%	55%	43%	-5%	14%

Tables 5, 6 and 7 are presented showing data from 2000 to 2022. The growth in milk production, cow numbers and milk production per cow for the four states have been a long and consistent trend and not a one- or two-year abnormality.

Table 5 Comparison of Milk Production by State – Michigan, Illinois, Indiana, Ohio 2000 to 2022 (Source: USDA, Economic Research Service calculations using USDA, National Agricultural Statistics Service data)

Milk Pounds (000)														
	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	% Change
Illinois	2,094	1,897	1,915	1,830	1,850	1,894	1,912	1,929	1,878	1,748	1,787	1,774	1,714	-18%
Indiana	2,419	3,553	3,746	3,830	3,892	4,025	4,153	4,264	4,161	4,073	4,330	4,532	4,413	82%
Michigan	5,705	8,478	8,991	9,164	9,609	10,261	10,876	11,231	11,168	11,385	11,683	11,952	11,740	106%
Ohio	4,461	5,144	5,355	5,448	5,425	5,493	5,548	5,591	5,532	5,425	5,618	5,643	5,519	24%

Table 6 Comparison of Total Cow Numbers by State – Michigan, Illinois, Indiana, Ohio 2000 to 2022. (Source: USDA, Economic Research Service calculations USDA, National Agricultural Statistics Service)

Milk Cows (000)														
	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	% Change
Illinois	120	116	115	96	94	94	94	93	90	83	83	82	80	-33%
Indiana	146	172	175	176	178	182	184	187	184	178	183	192	186	27%
Michigan	300	366	375	380	390	408	419	427	424	426	430	441	428	43%
Ohio	262	268	270	270	267	267	265	263	259	251	254	257	250	-5%

Table 7 Comparison of Milk Production per Cow by State – Michigan, Illinois, Indiana, Ohio 2000 to 2022. (Source: USDA, Economic Research Service calculations using USDA, National Agricultural Statistics Service data)

Annual Milk production per Cow														
	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	% Change
Illinois	17,450	16,353	16,652	19,063	19,681	20,149	20,340	20,742	20,867	21,060	21,530	21,634	21,425	23%
Indiana	16,568	20,657	21,406	21,761	21,865	22,115	22,571	22,802	22,614	22,882	23,661	23,604	23,726	43%
Michigan	19,017	23,164	23,976	24,116	24,638	25,150	25,957	26,302	26,340	26,725	27,170	27,102	27,430	44%
Ohio	17,027	19,194	19,833	20,178	20,318	20,573	20,936	21,259	21,359	21,614	22,118	21,957	22,076	30%

Ex 61 contains a data request to the USDA that lists producer milk pounds received at pool distributing plants and partially regulated distributing plants by state in 2015 vs 2022. A comparison is made to total milk production by state for 2015 and 2022.

Receipts at plants located in **Indiana** that bottle milk increased by 678 million pounds while total milk production in Indiana increased 388 million pounds. Approximately 25% of the milk production in Indiana is shipped to other markets and pooled in Federal Orders 5 and 7.

Receipts at plants located in **Michigan** that bottle milk decreased by (478) million pounds while total milk production in Michigan increased by 1.5 billion pounds.

Receipts at plants located in **Ohio** that bottle milk decreased by (196) million pounds while total milk production in Ohio increased by 26 million pounds. The decrease in bottling plant receipts in Ohio was absorbed by additional demand from class II plants.

Ex 61 NMPF data requested from USDA

FO 33 Producer Milk Pounds (Mil) Received at Pool Distributing Plants and Partially Regulated Distributing Plants by State - 2015 and 2022				
Year	**Indiana**	**Michigan**	**Ohio**	**Total**
2015	1,757	2,339	2,818	6,913
2022	2,434	1,861	2,623	6,918
Change	**678**	**(478)**	**(196)**	**5**

Total Milk Production by State (Source: USDA NASS Data) (Mil Lbs.), (See Table 5)				
Year	**Indiana**	**Michigan**	**Ohio**	**Total**
2015	4,025	10,261	5,493	19,779
2022	4,413	11,740	5,519	21,672
Change	**388**	**1,479**	**26**	**1,893**

Michigan Milk Production Market

The Michigan market supports good milk production due to the ideal climate, abundant and sustaining natural resources to grow the necessary feed in the region. Michigan consistently has the highest milk output per cow in the US with a 44% increase in milk output per cow since 2000 (see Table 7).

70% of the milk supply in Michigan is concentrated in three geographic areas with 56% of supply located in the eastern thumb and central/northern counties of the state.

Four counties in western Michigan supply 14% of the milk in the state. These main dairy farming regions in Michigan continue to expand while other regions in the State have experienced a reduction in milk production.

70% of the Milk Production in Michigan is from three regions.

- 33% comes from Central/Northern lower Michigan in Gratiot, Clinton, Osceola, and Missaukee county.
- 23% comes from the thumb of Michigan in Huron, Sanilac, and Tuscola county.
- 14% in Western Michigan in Ionia, Allegan, Ottawa, and Barry county.

The Mideast market had 57 Class I processing plants in 2000; today there are 33 Class I plants, a reduction of 24 plants, or a 42% reduction. Michigan currently has two Class I plants in the metropolitan Detroit area and four Class I plants on the west side of the state for a total of 6. The reduction in Class I plants has caused milk to be transported greater distances to reach Class I plants. Adjacent markets to Michigan have experienced similar class 1 plant reductions. Two large fluid plants formerly located in Chemung and Huntley Illinois closed that had primarily served the class I fluid milk market in Chicago. Packaged Class I products are now supplied to Chicago retailers from Class I plants located in western Michigan, Ohio, and Wisconsin.

MMPA's largest balancing plant is in Ovid MI located in Clinton county in central Michigan in the heart of its milk shed. Michigan has experienced the addition of new plants near the milk producing counties. A condensing plant was built in Cass City, Tuscola county in 2013 which is in the thumb region. In 2018 A milk RO processing plant was built in Greenville Michigan to condense milk in West Michigan. A new class I fluid and butter, powder plant opened in 2012 located in Ottawa county in West Michigan. A large cheddar cheese plant opened in Clinton County Michigan in 2020. As Class 1 plants have closed additional plants have been built close to the milk supply competing for the same milk that is being supplied to more distant class 1 plants.

Milk in Michigan travels south and east to reach Class I plants in Indiana, Ohio, Pennsylvania, and states even further south when needed. **The Michigan milk market acts as a reserve source of milk for these other states.**

In the past ten years there have been four new Class I processing plants built in the Mideast market, these new plants are in Fort Wayne, Indiana; Tipp City, Ohio; Coopersville, Michigan; and just recently, a new ultra-high temperature processing plant opened in Morgantown, West Virginia.

The new Indiana and Ohio plants are 200 to 350 miles farther south from where the milk supply is in Michigan. The addition of these new plants contributed to the closing of two Class I plants in Livonia and Evart Michigan in recent years.

Ohio has experienced increased growth in the demand for milk. A new Class II plant was built in Wooster, Ohio in 2016, an existing Class II plant in Minster, Ohio has expanded its production capacity and a Class I plant in Canton Ohio has more than doubled its milk volume in the past ten years. This additional milk demand has increased the shipments of milk from Michigan to Ohio. Michigan has become the reserve supply for these growing markets.

Michigan also supplies milk as required seasonally to the Southeast area of the United States. The milk hauling costs to move this milk to the southeast are subsidized by the milk cooperatives in the southeast.

The current Class I differentials established in 2000 are not adequate to cover the increased cost of transporting milk to distant Class I plants, whether that is within the Mideast market or outside of it. The zone for the Class 1 differential of $1.80 per hundredweight in Michigan covers a large geographic territory that stretches 525 miles from the Northern Upper Peninsula of Michigan in Marquette County to Fountain and Clinton Counties in central Indiana. MMPA supplies milk to a class I plant in Marquette Michigan, the hauling cost to get milk to this plant is $1.50 per hundredweight. The NMPF proposed change in the Class I surface maps addresses the inadequacies of one differential covering this large geographic area and reflects additional rates across smaller zones to better reflect the cost to move milk.

There are more cheese plants competing for milk today compared to 2000. The Mideast market has 3 large cheese plants in Michigan, a large cheese plant in eastern Pennsylvania and multiple mid-size to smaller cheese plants In Ohio. In October 2020 a new large-volume cheese plant opened in central Michigan that now absorbs 8 million pounds of milk per day from the Michigan market.

The current Class I differentials are too low and do not provide the economic incentive the Federal Milk Marketing Orders intended to ensure that Class I plants get the milk they need and to compete with the increased demand from manufacturing plants in the Mideast market and other parts of the country. Milk cooperatives and their members end up subsidizing the costs to get milk to Class I plants due to marketing and hauling costs exceeding the current Class I differentials. The concern is that serving the Class I market is not economically sustainable long term, one could conclude that it would be better to deliver milk locally to a large manufacturing plant rather than absorbing the added costs to deliver milk to a more distant Class I plant.

Milk Hauling Market Changes

MMPA contracts milk hauling services with third party haulers to move bulk milk into our plants and processed bulk liquid dairy products manufactured at MMPA plants to regional and national customer locations. The key components of the milk hauling costs have all increased – diesel fuel, distribution equipment (trucks and tankers), driver wages and benefits, and liability insurance. The following cost feedback from key haulers utilized by MMPA in Michigan and Ohio provides insight into the cost increases experienced in the Mideast market.

Additional rolling stock is needed today versus 2000 because of the Department of Transportation's driver hours of service allowed per day revisions in 2018, and the increased distance milk must now travel to more distant Class I dairy plant locations.

New trucks require more service to the emission systems and electronics. This results in more downtime compared to 2000.

Diesel fuel costs have increased from $2.00 per gallon in 2006 to $4.40 per gallon today, an increase of 120%. MMPA now pays fuel surcharges to haulers that adds 38% to hauling costs just for fuel cost increases (August 2023). Improved fuel mileage per gallon has offset a small portion of the fuel increases.

New EPA regulations mandating fuel milage increases and lower emissions have increased the cost of a truck due to increased use of sensors and controls. Unfortunately, these emission detection systems tend to be unreliable and have increased maintenance costs, which causes additional equipment downtime. The historical cost of a new truck in 2009 was $96,000. In 2019 $153,000 and in 2023 $183,000 a 90% increase in 14 years.

The cost of a bulk milk tanker has increased. In 2020 a standard 48,000-pound bulk tanker cost $68,000, that same trailer today costs $96,000, a 40% increase in just the past 3 years.

Another contributing factor to truck cost increases has been a shortage of parts along with increased demand for trucks especially during the Covid years of 2020 and 2021. The combination of a short supply of new trucks and haulers looking to avoid the increased repairs and downtime of new trucks caused the prices of used equipment to increase over the past two years.

MMPA milk haulers indicate that liability insurance costs have increased significantly in the past five years driven in part by the increased cost of equipment.

Driver wages have increased to obtain and to retain qualified drivers due to a national driver shortage that peaked in 2018 triggered by the hours-of-service increased restrictions.

Medical benefit costs have increased 30% since 2016.

Traveling out of Michigan generally involves the use of toll roads and sometimes special road permits. An example of toll road costs from Michigan to Cleveland Ohio are $64 round trip or just under $.13 per hundredweight.

MMPA milk hauling costs for July 2023 to transport milk from mid-Michigan to eastern Ohio was $1.06 per hundredweight, per 100 miles. This cost includes Ohio toll road fees that adds $.05 per hundredweight per 100 miles.

Farm Costs/Milk Quality

Customers that buy class I and class II bulk milk have increased their quality standards for milk and have increased their requirements for maintaining sustainability, environmental and animal welfare programs. While we support these efforts, we recognize these programs come with additional costs. Customers increasingly discourage us from supplying them with route milk or comingled loads of milk. Customers prefer to receive a single load of milk from a single farm.

Customer requirements for somatic cell counts (SCC) are more likely to be in the range of 150,000 to 180,000 and not the 350,000 contained in the Federal Milk Order language. To achieve lower SCC milk, the cooperative has a quality premium program where Somatic Cell Count premiums and deductions (in addition to Federal Order SCC adjustments computed in the producer pay price) are paid to producers. MMPA pays modest volume premiums to large farms to recognize the marketing efficiencies associated with single farm loads. This adds costs to supplying the class 1 market that are not paid for by class I handlers. The additional milk quality and volume premiums paid to producers exceed $.50 per hundredweight.

Example of the cost of achieving lower Somatic Cell Count Milk:
Class I plants demand milk with SCC values below 180,000

2023 YTD 40-pound block cheddar cheese price = $1.80 x .0005 adjuster = $.0009 per thousand Somatic cell count adjustment rate. A base somatic cell count of 350,000 less 180,000 actual equals a target somatic cell count reduction of 170,000 x $.0009 = **$.15 per hundredweight.**

Active participation of dairy farmers in animal welfare programs such as Farmers Assuring Responsible Management (F.A.R.M) that certify animal welfare conditions.

Enrollment in environmental sustainability programs includes defining a plan, tracking, and reporting results. Achieving meaningful changes requires capital investment and additional resources.

The price mechanism available to producers to recover these cost increases to serve the Class I market is the Class I differential. Farmer cooperatives and their members end up absorbing costs not covered by the Class I differential.

Table 8 lists the past 5 years of the annual average Producer Price Differential that demonstrates the low or even negative value the Mideast FO 33 market pool has paid versus the base class III price.

- 2018 average $.60 per hundredweight
- 2019 average $.26 per hundredweight
- 2020 average negative ($2.31) per hundredweight
- 2021 average a negative ($.38) per hundredweight.
- 2022 average $1.21 per hundredweight.

Table 8 Mideast Producer Price Differential

Mideast Producer Price Differential						
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
January	$0.84	$1.50	$0.89	($1.08)	$0.96	$1.39
February	$0.61	$1.71	$0.27	($0.84)	$1.28	$1.74
March	$0.02	$1.15	$0.72	($0.47)	$0.93	$0.81
April	$0.16	$0.48	$1.15	($1.34)	$0.49	$0.44
May	$0.15	$0.56	$0.59	($1.53)	$0.38	$2.10
June	$0.63	$1.13	($7.05)	$0.60	$1.45	
July	$1.12	$0.47	($8.02)	$0.76	$2.18	
August	$0.40	$0.60	($2.93)	$0.90	$3.23	
September	($0.26)	($0.31)	($0.27)	$0.59	$2.82	
October	$0.77	($0.86)	($6.87)	($0.13)	$1.18	
November	$1.24	($2.44)	($7.40)	$0.50	$1.74	
December	$1.47	($0.93)	$1.18	$0.99	$1.31	
Average	**$0.60**	**$0.26**	**($2.31)**	**($0.38)**	**$1.21**	**$1.01**

The current Class I differentials do not provide sufficient economic recovery for producers.

Retail Landscape

The retail landscape has changed in the Mideast market whereby national retailers such as Walmart/Sams Club, Costco, Aldi, Meijer, Kroger, and Target have displaced local independent stores. Other national retail chains such as A&P, K-Mart, Safeway Dominick's Chicago (adjacent to the Mideast market) have exited the market.

Retailers selling class I milk products have consolidated; they have more locations that cover larger geographic areas. This trend has served to put downward pressure on Class I margins for Class I plants that in turn puts pressure on farmer cooperatives and the over order premiums they are able to charge Class I plants. Class I over order premiums peaked in January 2012 at $2.37 per hundredweight net of any performance credits to buyers. The base premium was $1.25 plus a rBST free premium of $.90 plus a fuel surcharge of $.22.

Over order milk premiums slowly eroded from January 2012 as rBST free premiums were eliminated and buyers became more aggressive in premium negotiations.

The low point came in January 2018 when premiums dropped to $.30 per hundredweight.

Over order premiums for September 2023 are $1.05 plus a fuel surcharge of $.26 or $1.31 per hundredweight.

More retailers operate fluid milk plants today than in 2000 in the Mideast market. The Mideast market has 3 retailers who operate 6 processing plants. In 2000, there was one retailer operating 3 processing plants. The large retailers can offer farmer cooperatives large milk volumes because of their expanded geographic footprint and increased number of retail locations. The offer of large milk volume tends to put downward pressure on over order milk premiums in the market. Increasing overorder milk premiums today is more difficult than it was 20 years ago.

The proposed adjustments to the Class I differentials would provide for a fair and uniform system of change.

Summary

In summary, the proposed new Class I differentials across the market would provide for a fair and uniform system of change and would not be influenced negatively by an individual Class I plant's unwillingness to pay these costs.

Class I differentials across the United States are outdated and need updating to reflect the market changes that have occurred since the last update in 2000. The NMPF's proposed change in class I differentials does not attempt to capture all increased costs identified but strives to achieve a balanced approach of updating the Federal Milk Order system and its implementation.

Your hard work and expertise as you consider this important matter for the good of the dairy industry is appreciated.

Thank you.