Testimony of Christian Edmiston

Land O'Lakes, Inc.

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My name is Christian Edmiston and I am Vice President of Procurement at Land O'Lakes. I have worked in the dairy industry for over 20 years, including roles with Informa Economics, Kraft Foods, and Land O'Lakes. My primary areas of responsibility have been procurement and sales of dairy products such as milk, cheese, butter, whey, and cream, as well as dairy commodity market analysis and risk management. I have personally bought and sold bulk cheese varieties for my employers, and also draw upon the experience of others within Land O'Lakes that have done the same. I have served on committees and represented my current and former employers with groups such as the International Dairy Foods Association (IDFA), National Milk Producers Federation (NMPF), Chicago Mercantile Exchange (CME), and American Dairy Products Institute (ADPI).

Land O'Lakes is a dairy cooperative with 1,200 dairy farmer member-owners. Land O'Lakes has a national membership base, whose members are pooled on five different Federal Orders. Land O'Lakes members own several cheese (block, barrel, processed, and dry), butter-powder and value-added plants in the Upper Midwest, East and California.

Land O'Lakes thanks the Department for calling this hearing to consider the modernization of federal milk marketing orders (FMMOs).

I present this testimony on behalf Land O'Lakes, Inc. Land O'Lakes fully supports all the NMPF proposals, and this testimony is submitted in support of Proposal Number 2: Remove the 500 Pound Barrel Cheddar Cheese Price from the Protein Price.

As others have stated in their testimony, dairy producers have been negatively impacted by the current cheese pricing structure in the Class III formula. This primarily occurs in two ways:

1. The ratio of volume in NDPSR block cheddar cheese vs NDPSR barrel cheddar cheese is not representative of cheese pricing in the United States. In my experience, most cheese in the United States is priced off of the 40-pound block cheddar cheese market with only a very small fraction of cheese priced off of 500-pound barrel cheddar cheese. However, the Class III formula is weighted nearly equally with block and barrel cheese prices. Consequently, when block cheese prices trade well above barrel cheese prices, as has mostly been the case since 2017, the result is a Class III milk price that is artificially lower because of the over-representation of barrel cheese price.
2. When the price of block cheese exceeds that of barrel cheese, barrel cheese manufacturing plants struggle to maintain profitability with a regulated milk price based on the weighted average of block cheese and barrel cheese, and with the barrel cheese sales limited to the lower value of barrel cheese price only. Producers either absorb this financial impact through direct ownership of the milk processing asset via a cooperative, or through lower milk prices paid to producers by the manufacturer in areas outside FMMO's.

In the 1999 Federal Order Reform decision, USDA stated:

> The NASS [NDPSR] cheese survey price will be determined by adding three cents to the moisture-adjusted barrel price and then computing a [volume-]weighted average price using the block cheese price and the adjusted barrel price … Including both block and barrel cheese in the price computation increases the sample size by about 150 percent, giving a better representation of the cheese market. Since the make allowance [in the protein component price formula] is for block cheese, the barrel cheese price must be adjusted to account for the difference in cost for making block versus barrel cheese. The three cents that is added to the barrel cheese price is *generally considered to be the industry standard cost difference between processing barrel cheese and processing block cheese* [emphasis added].

64 Fed. Reg. 16098 (emphasis added). The original goal was to increase statistical volume on the survey by adding barrel cheddar cheese, while adjusting by $0.03/pound to reflect the difference in cost for the lower barrel cheddar cheese prices. The effect of this was to put block cheese and barrel cheese on equal price terms, which meant no major impacts to milk producers or processors of barrels. Since that time, barrel cheese prices have become increasingly more distant from block cheddar prices and the $0.03 addition to barrels is not enough to cover the delta between the two.

The price spread between block cheese and barrel cheese was relatively stable from 1999 to 2016. Without volatility in this price spread, the flaws in the current Class III pricing formula structure were not evident. The departure of the historically stable price relationship between block cheese and barrel cheese has become evident since 2017 and has created the financial impacts detailed above.

To address several concerns that have arisen during industry association meetings:

1. Price discovery will not be impacted. The NDPSR survey can continue to include barrel cheese, and provide visibility to changes in the market price, but it does not have to be included in the Class III Protein Price calculation.
2. The CME cash barrel market would not be impacted. While removal of the barrel price from the Class III Protein Price calculation may change trading interest in the CME cash barrel market, trading can still occur.
3. The impact on risk management and futures position limits should be negligible. As mentioned in other testimony, the percentage of total product represented by survey volume would remain above the level seen in the butter market. Single month position limits are currently the same in butter as for cheese futures and block cheese futures.

Given these considerations, Land O'Lakes supports the NMPF proposal to remove the 500 pound barrel cheddar cheese price from calculation of the protein price.

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