



Testimony of the Wisconsin Cheese Makers Association

**Hearing on Proposed Amendments to Tentative Marketing Agreement and Order
Upper Midwest Marketing Area**

Docket No. AO-361-A39; DA-04-03

My name is John Umhoefer and I am executive director of Wisconsin Cheese Makers Association, a nonprofit trade association based at 8030 Excelsior Drive in Madison, Wisconsin.

Wisconsin Cheese Makers Association as part of the coalition identified by Mr. Gulden, wishes to offer testimony in opposition to Proposals 2, 3, 4, 5, and 6.

Wisconsin Cheese Makers Association or WCMA represents dairy manufacturers and marketers. Our membership includes 62 dairy manufacturing companies operating 82 cheese and butter making facilities. In addition, WCMA has 25 members that further process dairy products into pasteurized process products, cut cheese for retail or foodservice sale or market dairy products. Another 270 companies supplying goods and services to the industry are affiliated members of Wisconsin Cheese Makers Association.

A significant portion of our members will be affected by proposals offered at this hearing. Specifically, 32 WCMA members operate 42 dairy facilities that are pooled on Federal Milk Marketing Order 30 (Order 30).

Three WCMA members companies that supply milk to Order 30 employ more than 500 people at a total of seven facilities. Thus 29 WCMA member dairy processors that pool milk on Order 30 are small businesses for the purposes of economic analysis under the Regulatory Flexibility Act. These 29 small businesses operate 35 facilities making cheese and butter.

Wisconsin Cheese Makers Association is concerned that these 35 small business facilities pooled on Order 30, and indeed all WCMA members pooled on Order 30, will face significant new costs due to requirements proposed in Proposals 2, 3, 4, 5, and 6. These include costs to ship milk greater distances only to satisfy proposed new requirements, costs to add new milk silos only to satisfy proposed new requirements, costs to add employee positions only to satisfy proposed new requirements and costs to upgrade software only to satisfy proposed new requirements.

These new costs are not offset by any new benefit to the dairy producers shipping milk to our member dairy facilities. In fact, many of these proposals will severely discourage depooling, and open up these dairy producers to new milk check deductions to offset new costs. Some of these proposals both add needless costs for our members' dairy facilities and reduce the ability to depool, a double negative for these Upper Midwest dairy producers.

Proposal 2

Proposal 2 as described in the June 23 *Federal Register* limits the amount of milk a handler may report to 125 percent of the previous month (with exceptions for March and August). A cheesemaking facility that pools, for example, 10 percent of its milk in September could report 12.5 percent of its milk in October. This plant could not pool all receipts until the following July, 10 months after depooling 90 percent of its supply.

The members of our trade association are concerned that Proposal 2 focuses on depooling, while ignoring federal milk pricing provisions that lead to negative producer price differentials (negative PPDs). The federal order system fails to set prices for all milk classes in sync with each other. Depooling is an economic response to out-of-sync milk prices and the subsequent negative PPDs.

Proposal 2 requires a new administrative task of designating which producers are to be removed from the pool each month. Among the 29 WCMA member companies which qualify as small businesses, 16 companies have less than 50 employees. Each of these companies surveyed by WCMA employs one staff position or less than one staff position to perform the administrative paperwork associated with pooling on Order 30. Each added administrative task will require additional work and potentially additional staff to complete these new requirements.

This proposal builds in an inequitable concept that allows handlers to ship milk to pool distributing plants and pool that additional milk above and beyond the 125 percent limitation. Since both access to distributing plants is limited, and the milk needs of distributing plants are finite, this proposal is inherently unfair. Some producers will gain quick access to the Order 30 pool after depooling while other producers will not.

Proposals 3 and 4

These proposals are particularly costly to WCMA member facilities due to added shipping costs, added administrative costs and the potential need for added silo capacity at dairy facilities to handle this volume of milk through the pool plant.

This testimony will address versions of these proposals found in the June 23 *Federal Register*, and changes presented this week as USDA may select either as a viable version.

WCMA members pooling milk on Order 30 designate a portion of their silo capacity to accept milk for pooling. This Grade A silo or pool silo is designated annually. A number of WCMA members surveyed for this testimony have inadequate pool silo capacity to qualify their producers for the equivalent of 10 day's milk production each month as required in Proposal 3 and 4 in the June 23 *Federal Register*. Silo capacity has been built to accommodate current order requirements which call for one-time touch base for producers that remain associated with the order. Most WCMA members surveyed designate one silo as a Grade A silo and the remaining silos as non-pool silos.

Some members surveyed noted that an existing, appropriately sized silo could be designated as their pool silo. But others noted that in order to adequately pool the volume of milk proposed in Proposals 3 and 4, and in order to keep an adequate volume of silo capacity for non-pooled milk, new silo capacity would be required.

Conservative cost estimates from members for a concrete pad, stainless steel silo and piping ranged from \$50,000 to \$100,000 or greater. This cost to these small businesses would be incurred directly due to the requirements found in Proposals 3 and 4. Some members surveyed by WCMA expressed concern that their current location for milk silos could not accommodate the addition of another pad and silo. These members face added costs of preparing new ground to support the weight of trucks and silos.

In the end, this new silo capacity adds costs and inefficiency in milk storage. Existing federal order systems and industry supply contracts provide ample milk for the Class 1 market. Additional pool silos are not necessary at supply plants to assure an adequate supply of Grade A milk for the bottle.

Two WCMA members with multiple facilities report having one pool silo serving all their plant locations. Shipping ten day's milk from each farm to a single pool silo serving several plants would require increased milk hauling to and from that single pool silo, a wasteful practice of loading and unloading milk solely to meet a new requirement in the Order.

An attached table (page 6) provides this hearing with the cost of shipping a given load volume of milk a given distance. The chart uses a conservative freight cost per loaded mile of \$2.20. All additional milk shipping reduces the quality and the safety of the Order 30 milk supply, and adds costs that reduce the ability of these small businesses to provide milk price premiums to dairy producers.

The changes to Proposals 3 and 4 unveiled this week require the equivalent of ten day's milk to be received at a pool distributing plant to reassociate a producer with the order. This change results in multiple concerns: First, it is highly unlikely that cheese factories will be able to find a home for this level of milk, for multiple producers, at pool distributing plants in Order 30. Second, new shipping arrangements (new routes and new haulers) may be required to ship this member milk directly to a bottling plant. Third, new costs to cover this inefficient movement of milk would be borne by the cheese factory and producer patrons.

Proposals 3 and 4 are also onerous for the added administrative burden to small business. New staff time and new software capability would be required to track daily milk receipts from producers with the intent of assuring that ten days equivalent milk was shipped from each member farm. Milk receipts from each farm, with milk pick-up ranging from every other day to three times daily must be tracked against ten days equivalence. Any changes

in milk shipment must be carefully tracked due to milk haulers adjusting routes or skipping or altering milk pick-ups for any reason.

Members expressed concern with how and when Order 30 would audit and verify the accuracy of the ten day's equivalence. Members expressed concern that daily changes in milk supply from a given farm within a month could not guarantee that accepting milk into a distributing plant for ten days would be the same as "the equivalent of ten day's milk production." Members have experienced producers involuntarily depooled, by a market administrator, after delivery of milk for the requisite number of days where the day's pickup volume was below daily average production for the producer. More likely, therefore, a plant would need to assure that 11 or 12 days' milk shipments are made to be certain that the equivalent of ten days' milk production has reached the bottling plant. Members estimated the administrative cost of meeting the requirements in Proposals 3 and 4 at one-third to one-half person additional staff time. One member small business estimated this cost to be \$20,000 in additional staff time and software upgrades.

Proposal 5

Proposal 5 is similar in structure to Proposal 2 with a more restrictive limitation on repooling milk.

This proposal establishes similar administrative requirements as Proposal 2 and the similar inequitable concept of allowing some producers with access to pool distributing plants to pool milk outside of the limitation proposed for all producers.

Changes to Proposal 5 made this week further restrict repooling and add to the administrative workload of selecting which producers cannot pool each month.

Proposal 6

Proposal 6 requires plants to re-qualify producers by shipping two days milk to a pool plant in each of the months of July through November.

This requirement serves no discernable purpose toward the goal of orderly marketing in federal Order 30. The current practice of qualifying producers for Order 30 through a one-time shipment of milk to a pool plant works effectively and efficiently under the order. The proposed requirement adds unnecessary administrative costs and the potential for added milk shipment for no purpose that benefits the order.

The increase in the amount of milk delivered to a pool supply plant will require additional Grade A or pool silo capacity at several WCMA member small businesses now pooling milk on Order 30. The need to match pool silo capacity to this pooled milk, and the need to maintain adequate capacity in non-pool silos will force some of the small businesses surveyed to construct additional silo capacity. As noted earlier in this testimony, a conservative cost estimates for a concrete pad, stainless steel silo and piping ranges from \$50,000 to \$100,000 or greater.

The conforming change to Proposal 6, noted as Proposal 8 in the testimony of Paul Christ, creates the inefficient scenario of qualifying producer milk by shipping milk to a pool supply plant, rather than directly diverting the milk, before shipping milk to a pool distributing plant. The shipment of this milk to the pool supply plant, followed by pumping the milk into and out of a pool silo, and reloading the milk for shipment to a pool distributing plant adds needless cost and reduces the quality of the milk for the consumer.

Shipment of producer milk through a pool supply plant will undoubtedly require additional Grade A milk silo capacity at Wisconsin cheese factories. Again, this cost would be incurred to fulfill an inefficient regulation that results in lower quality milk.

Proposal 7

Proposal 7 raises the ceiling for a maximum administrative assessment rate for the Upper Midwest order from 5 cents to 8 cents per hundredweight.

Wisconsin Cheese Makers Association would like to offer an independent opinion in opposition to this proposal for an increased spending cap. While WCMA recognizes the quality of work performed by federal order staff, this proposal offers no offsetting requirement for the federal order to review or limit its fixed costs as milk volume changes. If rates are always adjusted upward in the face of reduced milk hundredweights, then presumably an order area with a diminishing milk supply would implement a higher and higher assessment.

The federal order, like a small business, should be required to live within its means. Short term declines in assessment income should be addressed through reserve supplies of funds or lines of credit. Long term declines should trigger a review of cost savings.

This concludes my testimony.