

## Elimination Of 500-Pound Barrel Cheddar Cheese From The Class III Protein Price Calculation

### Introduction

My name is Paul Bauer, and since 2008 I have been the CEO and general manager of the Ellsworth Cooperative Creamery (Ellsworth) headquartered in Ellsworth, Wisconsin. I have worked 30 plus years in various senior leadership roles with other cheese cooperatives and private companies. Ellsworth Cooperative Creamery has been in business since 1910 and has 220 member-owners producing 777 million pounds of milk annually. Ellsworth has three dairy processing operations with 380 employees. In the Village of Ellsworth, Wisconsin, we have a barrel cheese plant in which we sort cheese curds to sell at retail and to sell in bulk to other businesses. At this location, we operate a sweet whey drying plant, which sells some condensed whey, as well as a separate retail packaging operation for cheese curds. Our Menomonie, Wisconsin plant makes 40-pound block cheese products, including #2 yellow USDA grade cheddar, cheese in horns, and traditional brined Muenster Cheese. The plant also has a cut-and-wrap operation. Our New London, Wisconsin plant makes American process cheese into 42-pound blocks to 2.5 pound loafs. In all, we manufacture over 130 million pounds of cheese a year.

I am here in support of removing the 500-pound ungraded USDA barrel cheddar cheese from the protein price calculation. The Federal Milk Marketing Order (FMMO) currently includes this value while the entire industry has changed since it was included. The original concept to include the 500-pound barrel cheddar cheese price series in the Class III price calculation was to get more input tonnage for use in estimating the most accurate pricing of cheese sales into the market. The 500-pound barrel cheese price incorporated adjustments to get to a synthetic 40-pound block cheddar cheese price. Today, including the 500-pound barrel cheese prices is doing the very opposite of what was intended by creating disorderly marketing in FMMOs by artificially pulling down prices that do not correlate to the actual market, resulting in a reduced Class III price for dairy farmers.

**Protein Value Calculations – Not Like Other FMMO Values**

The protein component price in the FMMO is the only value to use two different product price series to establish its value. The number of pounds and value of barrel cheese, adjusted to represent a 40-pound block cheese equivalent, and #2 yellow cheddar cheese sold to external customers are reported to establish an average price of cheese to be used to calculate the protein price. The volume of each type of cheese is reported and averaged so the number of barrels or blocks will change over time. Since the volumes vary by week, there is added variability and volatility to the price discovery process.

FMMOs have allowed the use of two different products to set the cheese price used in the calculation of the Class III protein price. No other component has this set up. Whereas 40-pound block cheddar cheese has robust markets and many uses, 500-pound barrel cheddar cheese is singularly focused on process cheese, a market driven by a few processors and purchasers. The smaller statistical information captured by including barrel cheese prices results in skewing, rather than making more accurate, the actual cheese prices in the market because of this small market report that can be entirely disconnected from the rest of the cheese market.

The long-term fix to this issue is to have protein priced off the same single block market. By continuing with the two markets of blocks and barrels the industry has no reason to change to price off one market.

**Impact to Ellsworth Producers**

The differences between blocks and barrels on average have been stable prior to 2017. Since 2017, price differences between blocks and barrels have led to disorderly marketing of milk in cheese processing areas of the FMMOs with barrel cheese manufacturing. Producers who ship milk to plants producing barrel cheese are paid significantly less as they are unable to pay Federal order minimum price for milk since the barrel cheese price is too low. Ellsworth producers for example (Table 1) are losing \$.84 per hundredweight through April of 2023.

**Table 1**

<b>Impact to Ellsworth Producers of the Spread on between blocks and barrels beyond \$.03/lb.</b>							
Year	Barrels	Blocks	Spread	Pounds Made Millions	Producer Pounds	Impact \$ above \$.03 reported in Mil	Impact/ CWT
2017	1.53	1.61	(0.08)	65	699	\$ (3.02)	\$ (0.43)
2018	1.42	1.55	(0.13)	60	662	\$ (5.77)	\$ (0.87)
2019	1.69	1.78	(0.09)	53	698	\$ (3.14)	\$ (0.45)
2020	1.72	2.00	(0.28)	60	788	\$ (14.95)	\$ (1.90)
2021	1.57	1.71	(0.15)	68	860	\$ (8.02)	\$ (0.93)
2022	2.05	2.07	(0.02)	70	777	\$ 0.62	\$ 0.08
2023 April	1.67	1.90	(0.23)	23	125	\$ (4.60)	\$ (3.68)
Total Since 2017						\$ (38.89)	\$ (0.84)

**Basis of Orders**

One of the intents of the Agricultural Adjustment Act of 1933 (reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, Reference 2) was to provide orderly marketing for commodity products at the farm gate against variations in supply and demands from larger processors. The introduction of FMMOs was meant to create a more stable method to price milk and to create rules preventing processors from having significant market power over producers. With the inclusion of barrel cheese within the Class III pricing formula, this results in having two separate products price the same protein value that is being used to effectively negate the intent of FMMOs. The industry has changed, and an adjusted barrel price is no longer a good substitute for pricing block cheese. Thus, having barrel cheese not represent a fair price to calculate protein in cheese is the exact opposite of the intent of the orders.

**AAA of 1933 – USDA Website – Reference 2**

**REENACTING, AMENDING, AND SUPPLEMENTING THE AGRICULTURAL  
ADJUSTMENT ACT, AS AMENDED**

**(7 U.S.C. 601, 602, 608a–608e, 610, 612, 614, 624, 627, 671–674)**

AN ACT To reenact and amend provisions of the Agricultural Adjustment Act,  
as amended, relating to marketing agreements and orders.

*Be it enacted by the Senate and House of Representatives of the United States of  
America in Congress assembled,* That the following provisions of the Agricultural  
Adjustment Act, as amended, not having been intended for the control of the production of  
agricultural commodities, and having been intended to be effective irrespective of the validity  
of any other provision of that Act are expressly affirmed and validated, and are reenacted  
without change except as provided in section 2:

**(a) Section 1** (relating to the declaration of emergency);

**DECLARATION**

[It is hereby declared that the disruption of the orderly exchange of commodities in  
interstate commerce impairs the purchasing power of farmers and destroys the value of  
agricultural assets which support the national credit structure and that these conditions affect  
transactions in agricultural commodities with a national public interest, and burden and  
obstruct the normal channels of interstate commerce. (7 U.S.C. 601.)]<sup>2</sup>

**(b) Section 2** (relating to declaration of policy);

**DECLARATION OF POLICY**

[SEC. 2. It is hereby declared to be the policy of Congress—

(1) Through the exercise of the powers conferred upon the Secretary of Agriculture  
under this title, to establish and maintain such orderly marketing conditions for agricultural  
commodities in interstate commerce as will establish, as the prices to farmers, parity prices  
as defined by section 301 (a)(1) of the Agricultural Adjustment Act of 1938.<sup>3</sup>

(2) To protect the interest of the consumer by (a) approaching the level of prices which  
it is declared to be the policy of Congress to establish in subsection (1) of this section by  
gradual correction of the current level at as rapid a rate as the Secretary of Agriculture deems

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The continued market disruption caused by the widening and increasingly unpredictable spread between prices for 40-pound block cheddar cheese and 500-pound barrel cheddar cheese is affecting the members of Ellsworth Cooperative Creamery and other cooperatives that produce barrel cheese. Since 2017, our members have received \$.84 per hundredweight less than those counterpart cooperatives without a barrel operation. This difference in value “impairs the purchasing power of farmers and destroys the value of agricultural assets” because the pricing is not an accurate reflection of the market pricing. (Reference 2)

The \$.84 per hundredweight means less money to the Ellsworth producer, their families, farms, and communities. It also means the cooperative has less money to reinvest in assets to produce barrel

cheese or keep them as viable assets to process milk. Long term the lack of return will make barrel cheese production economically obsolete in FMMOs.

### **Inability of Substitution**

Barrel cheese and block cheese cannot be substituted at an equal exchange. White cheddar packaged in 500-pound barrels is almost exclusively used in the production of process cheese. Process cheese's main customers are restaurants and fast-food outlets. Because the current standard for processed cheese is 500-pound barrels of ungraded USDA white cheddar, a 40-pound block of yellow cheese cannot be substituted easily. The color in the block cheese would make some substitutions impossible. The moisture differences would again change the recipes and ingredient statements of some process cheese. A complete substitution between the two products would not be possible or acceptable for the majority of the process cheese manufacturers and process cheese buyers.

According to the USDA in 2020, 2.399 billion pounds of processed cheese was produced. According to information from Dairy Farmers of Wisconsin (the dairy marketing check off group for Wisconsin dairy farmers) the retail market for process cheese was approximately 165.1 million pounds of cheese in 2020. The remaining 2.234 billion pounds of processed cheese volume was used for food service or 93.1% of the volume.

### **How to Make the Problem Worse Is to Blend Barrel Price In the Calculation**

The best answer to address this issue is to price protein off one market and support the NMPF proposal to not include barrel cheese in the calculation of protein.

The answer is not to alter the proportion of 500-pound barrel cheese and 40-pound block cheese in the formula as it would continue the industry to use two markets in supporting the value. In essence, that would tend to blend out the barrel price problem which would make it worse for producers who ship to

barrel plants. In 2020, it would have made the payment to producers of barrel plants and additional \$.90/cwt less than non-barrel processors (Table 5).

Table 2 below was taken from reported information on USDA's website for 2020. Cheddar cheese was 30% of the total cheese produced, reported production to NDPSR for blocks was 4% of all cheese, and barrels represented 5% of all cheese. This means 9% of the nation's cheese production was reported and used in the Class III protein price. When considering just cheddar cheese, the total reported volume was just 31% with blocks being 13% and barrels being 17%. In the end, 83% of cheddar cheese production is most likely not priced off barrels.

**Table 2**

		% All	% Cheddar	% NDPSR
2020 USDA reported numbers				
Cheese Pounds	13,190,515,000	100%		
Cheddar Pounds	3,935,835,000	30%	100%	
NDPSR Blocks	531,000,000	4%	13%	44%
NDPSR Barrels	681,000,000	5%	17%	56%
All NDPSR	1,212,000,000	9%	31%	100%

So, if we are assuming a blended price for which barrel cheese is 17% of all cheddar, then 83% is from block cheese. It further concentrates barrels and provides a wider gap on what can be paid to producers who own and operate barrel cheese plants. The value of cheese used in the calculation goes from \$1.88 per pound to \$1.95 per pound for the calculation for cheese (see Table 3). This will raise the Class III price, but it will make it harder for producers with milk going to barrel plants to get paid that value. This will lead to further disorderly marketing of milk in FMMOs.

**Table 3**

	2020	% NDPSR	NDPSR	Est. Avera	Average
Barrels	1.72	44%	0.75	0.17	0.29
Blocks	2.00	56%	1.12	0.83	1.66
Spread	(0.28)		1.88		1.95

The ability to pay barrel producers actually widens by \$.90 per cwt.

**Table 4**

Should Value based on Selling price				
	Cheese	Whey	Butter	Milk costs
Price	1.8600	0.3750	2.4450	
MA	0.2030	0.1940	0.2000	
Net	1.6570	0.1810	2.2450	
Yield	10.1000	5.6000	0.0288	
Cwt	16.7357	1.0136	0.0646	17.8139
If based on only a percent of Cheese The Impact				
	Cheese	Whey	Butter	Milk costs
Price	1.9494	0.3750	2.4450	
MA	0.2030	0.1940	0.2000	
Net	1.7464	0.1810	2.2450	
Yield	10.1000	5.6000	0.0288	
Cwt	17.6387	1.0136	0.0646	18.7169

The above Table 4 shows the different values as it is worked through the same model to calculate the Class III price. The normal calculation shows a \$17.81 value per cwt and the second run using the 17%-barrel model shows a \$18.71 value per cwt.

**Table 5**

The spread between Class III and available income to pay producer becomes wider				
Normal Class III		17.8139		
% Barrels of All Cheese Class III		18.7169		
Increased disparity		(0.90)		

So, using a weighted model is worse for producers in a barrel operation (Table 5) and creates more disorderly marketing of milk. Producers in the order shipping to barrel plant would receive \$.90 less per cwt in a barrel weighted option.

**The Best Long-Term Answer to Base All Cheese Protein Prices Off of One Market**

I support the NMPF proposal to remove 500 barrels from the calculation to establish the protein price in milk. By amending the Class III protein price so that it is based off of only one market, all components

will be treated the same. Having a single market provides the needed tools to processors and producers alike. I fully recognize that the barrel processors and process cheese producers will need to find a new method to price process cheese. However, the simple answer is to base the Class III price on the 40-pound block cheddar cheese market. Doing so will lead to greater stability in FMMOs.

Thank you for your time today and I hope FMMOs can be amended to treat all farmers fairly.