

BACKGROUND PAPER

Farmers to Families Food Box Program Why Butter Is Not Finding Its Way Into the Boxes

According to the January 4, 2021 announcement from USDA, the fifth round of the Farmers to Families Food Box Program will be exclusively “combination boxes,” which include fresh produce, dairy products, fluid milk and meat products. Seafood is also added to this fifth round of Food Boxes.

Specific to the dairy portion of the boxes, USDA is expected to have the same requirements in terms of the dairy products to be included as the previous rounds. The only note pertaining to dairy in USDA’s announcement was an emphasis on additional cheeses that are eligible for inclusion in the boxes.

As a reminder, under the most recent round of the Food Box Program (fourth round), the dairy portion of the boxes were required to include:

- 1 gallon of milk (2 percent or whole milk); PLUS
- 5-6 pounds of at least two other dairy items
 - One of the items MUST be a cheese, from a list identified as “Group A”
 - One of the items MUST be a non-cheese, from a list identifies as “Group B”

Group A	Group B
Cheddar Cheese	Cottage Cheese
Swiss Cheese	Cream Cheese
Pepperjack Cheese	Yogurt
Mozzarella Cheese	Butter
Other hard, semi-firm or semi-soft cheese	Sour Cream

The result of this structure is that EVERY BOX includes a gallon of bottled milk and at least one pound of cheese. Further, the remaining 4-5 pounds of dairy products in the box must include one item from “Group B.”

However, the products identified in Group B have very different makeups. Four of the five products have very high-moisture content:

- **Cottage cheese:** 79% moisture content (water)
- **Cream cheese:** 55% moisture content (water)
- **Yogurt:** 81% moisture content (water)
- **Sour cream:** 71% moisture content (water)

Meanwhile, the fifth product in the category – Butter – has a moisture content of 16-18% (meaning it is 82-84% milk solids, compared to 19-45% milk solids included in the other four products).

WHAT DOES THIS MEAN? Products that have higher moisture (water) are inherently less expensive products to buy than products with a lower moisture content. In short, milk solids are more valuable than water.

To illustrate, here is an extreme example:

A gallon of milk weighs 8.6 pounds, most of which is water (about 88%). So on a per-pound basis, even a very expensive \$4.00 per gallon milk jug only costs about \$0.45 per pound. Meanwhile, even at the worst point of the COVID-19 pandemic, Cheddar cheese and butter market prices bottomed out at \$1.00 per pound. ***On a strictly per-pound basis, a lower-moisture product will not be able to compete on price with a starkly higher-moisture product.***

Understandably, comparing a high-moisture product with a low-moisture product will also result in very different nutritional value. On a “per-pound of nutrition” basis, one pound of fluid milk provides less than 200 calories of nutrition, compared to one pound of butter that provides more than 3,200 calories of nutrition. It’s an apples-to-oranges comparison.

The practical reality is that Food Box vendors have to fill each box with as much as five pounds of non-cheese dairy products, and the program does not differentiate between a dairy product that is very dense vs. a dairy product that is highly watered down. Under the “Group B” requirements, vendors can buy any of the high-moisture products for about \$1.00 per pound (according to a Food Box vendor I spoke with recently) or they could buy butter for \$1.50 per pound (still a historically low price). On five pounds of product, that’s a difference of \$2.50 per box – a cost the Food Box vendor has no incentive to absorb.

Meanwhile from a U.S. dairy farmer perspective, only four commodities are used to value the milk they produce each day: Cheddar cheese, butter, nonfat dry milk and dry whey. Further, *VIRTUALLY EVERY DAIRY FARM ACROSS THE U.S.* is paid a price for the milk they produce based in part on the value of butter. That is not the case for any other dairy product, including cheese. A depressed butter market due to oversupply impacts *VIRTUALLY ALL* dairy farmers.

REQUEST

Given the importance of including both butter and cheese in the Food Box program, and the inability of both butter and cheese to compete with the higher moisture products in the program’s “Group B,” we would ask that the following revision to dairy requirements be made (blue indicates the same as the most recent standard, red indicates a requested change):

- 1 gallon of milk (2 percent or whole milk); PLUS
- 5-6 pounds of at least **three** other dairy items
 - One of the items **MUST** be a cheese, from a list identified as “Group A”
 - **One of the items MUST be a butter, from a list identified as “Group B”**
 - One of the items **MUST** be a non-cheese and **non-butter**, from a list identifies as “Group C”

Group A	Group B	Group C
Cheddar Cheese	Butter – 1-pound solids	Cottage Cheese
Swiss Cheese	Butter – 1-pound quarters	Cream Cheese
Pepperjack Cheese	Butter – 16 oz. spreadable	Yogurt
Mozzarella Cheese	Butter – 16 oz. whipped	Sour Cream
Other hard, semi-firm or semi-soft cheese		

The multiple varieties of butter are listed to ensure that the products that are experiencing surplus inventories are directed towards the Food Boxes, minimizing interruptions with normal market outlets. One-pound solids, in particular, are a variety of butter typically destined for restaurant and food service customers. Those products would not compete with retail butter at the grocery store.

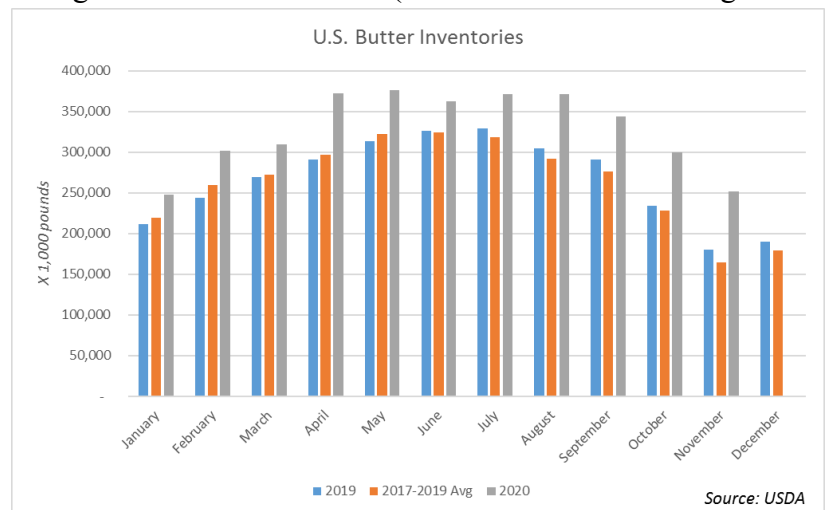
POINT-COUNTERPOINT

CLAIM: Both butter and cheese are already listed in the products available for inclusion in the Food Boxes. They have equal access for inclusion in the Food Boxes.

COUNTERPOINT: Group A is *exclusively* made up of cheeses, resulting in *EVERY* Food Box being required to include at least a pound of cheese. Butter is one of five items available under Group B, and given the differences between butter (low-moisture product) and the other four items (high-moisture products), butter cannot compete on price, even at heavily discounted prices.

CLAIM: If butter was truly in oversupply, the sellers of butter would lower the price to match other competing products in Group B.

COUNTERPOINT: Due to the drastic differences in moisture content between butter and the other four products in Group B, there is absolutely no way butter can fairly compete for space in those boxes, even at heavily discounted prices. There is clearly an overhang of butter in the market (USDA's own Cold Storage Report, as graphically represented here, proves it). That is why butter, which has spent most of the past five years above \$2.25 per pound, has seen market prices bouncing around \$1.45-\$1.50 per pound (and even lower currently). It is unfair to claim that the only way butter should be able to compete with other products in the category that have double/triple the amount of water/moisture content is to steeply discount the price below already-depressed prices.



Further, as USDA knows well, three of the other four products in Group B are made from "Class II" milk. The Class II formula is directly tied to the value of butter. In other words, if butter prices truly did drop to \$1.00 per pound, that would in turn drop the Class II price, which would make the products made from Class II milk even cheaper. The reality is that there is no way around the fact that the higher-moisture content of those products make them much consistently cheaper options than butter, which necessitates the program treating butter the same way as it treats cheese.

CLAIM: It is too late to make a change.

COUNTERPOINT: This fifth round of the Food Box Program will spend approximately \$1.5 billion and was just announced around close of business on Monday, January 4. At least one other change has already been made (addition of seafood to the boxes). This requested change would address an important unintended

consequence of the program: the virtual locking out of butter from most of the Food Boxes while mandating that some variety of cheese is included in every box.

USDA has an opportunity to avoid repeating history. The chart at the end of this document shows the huge windfall that dairy farmers shipping to cheese manufacturers got in 2020 due to the construct of this program, while all other dairy farmers were left unable to cover their costs on the farm. Markets are already responding to the news of the Food Box Program with a quick uptick in Class III prices, just in the two days since the announcement. There is still time to balance the impact of this program by including the modest change requested here. Further, the request to include butter does NOT pick winners and losers, as all dairies – including those dairies that ship to cheese manufacturers – are paid for the butterfat content of their raw milk production based on the price of butter.

CLAIM: The Food Box Program is not intended to fully reimburse producer losses.

COUNTERPOINT: From a good government perspective, there is wisdom in ensuring that government does not fully mute market signals by compensating producers for 100% of their market losses. However, what the Food Box Program has done to-date is divide the U.S. dairy farming community into two sectors: (1) one sector that has experienced higher milk prices than ever before in their career; and (2) another sector that has continued to face monthly on-farm losses. The only difference has been whether a dairy sells milk to a cheese manufacturer or whether they sell to any other buyer of milk. Further, based on the current construct of the fifth round of the program, USDA is poised to further enrich those farmers who sell to cheese manufacturers, while their neighboring farm who does not sell to a cheese manufacturer will continue to face historically low milk prices that fail to cover their on-farm costs.

The graphic below clearly shows the significant impact the previous rounds of the Food Box Program have had on the Class III milk price (the price applicable for milk sold to cheese manufacturers). This is not a hypothetical exercise – we have seen this play act out in 2020, and this Food Box Program, as it is currently constructed, is setting the industry up to repeat that history. As you can see, only two days after the announcement of a 2021 round of the program, we are already seeing Class III futures rising, creating more separation from the Class IV prices.

