



May 10, 2021

The Honorable Tom Vilsack
Secretary of the U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, DC 20250

Re: Class III Plus Milk Pricing Proposal

Dear Secretary Vilsack:

Over the course of the past 18 months, dairy farmers across the nation have experienced extreme price volatility, which included unprecedented swings in Class III milk prices. The resulting inversion of the Class III price well above the Base Class I price contributed to negative Producer Price Differentials (PPDs) like farmers have never seen before. This, in turn, led to widespread depooling by processors, which only drove PPDs even farther into the red. These pandemic-related challenges have left many calling for changes to the Federal Milk Marketing Orders (FMMOs).

Even before 2020 and the events that made it unique, the need to update and reform FMMOs was there. With that goal in mind, a group of Midwestern state dairy trade associations and a verification cooperative that has members throughout the region began meeting to look at the issues with FMMOs and evaluate possible solutions. One of the issues this group was tasked with confronting is how Class I milk pricing could be changed to help minimize the risks of negative PPDs and significant depooling like we experienced during the pandemic.

Last month, the National Milk Producers Federation (NMPF) board announced its intention to submit a proposal calling for an FMMO hearing regarding the Class I mover, which had been set at \$0.74 by the last Farm Bill. NMPF's proposal would help farmers recoup the revenue they lost during the pandemic, but it does nothing to address the long-term issue of negative PPDs or to mitigate the harm from future crises. In anticipation of NMPF's proposal, some of the same groups that have been meeting regarding FMMOs believed it important for us to share our ideas about how to make more lasting improvements to the Class I pricing structure. We also want to ensure any potential FMMO hearing is broad enough in scope for these ideas to be fairly considered. Our proposal, which we call Class III Plus, has the following features:

1. To facilitate producer risk management and reduce the likelihood of depooling and negative PPDs, Class I Skim Milk Price would be calculated as Class III Skim Milk Price + Class I Skim Milk Price Adjuster.
2. In all FMMO pricing formulas, advanced prices would be replaced with announced prices.
3. To facilitate orderly marketing and abundant supply of beverage milk, USDA would publish a revised Class I Skim Milk Price Adjuster each September for the forthcoming calendar year. Class I Skim Milk Price Adjuster would be equal to the average of the monthly differences between the higher of Advanced Class III and Class IV Skim Milk pricing

factors, and the Class III Skim Milk pricing factor during the prior 36 months of August through July.

4. To facilitate faster convergence toward revenue-neutrality after COVID-19, Class I Skim Milk Price Adjuster for 2021-2025 would not be lower than \$0.36/cwt. (For example, in calendar year 2022, the Class I Skim Milk Price Adjuster would be based on prices observed from August 2018 through July 2021, but not lower than \$0.36/cwt.)

The proposal provides a way for farmers to recoup some of the “lost” revenue from 2020, but it does so in a more measured and less abrupt manner than NMPF’s proposal. Also, unlike NMPF’s proposal, it is revenue neutral over the long term to promote fairness between dairy farmers, the processing community and consumers. There is an annual adjustment mechanism to account for future market shifts. Finally, and most importantly, it makes systemic changes that will improve farmers’ risk management abilities, reduce the likelihood of negative PPDs and reduce the chance of Class III processors depooling. We cannot end price volatility, but we can make risk management more effective going forward.

The undersigned groups are not putting forward Class III Plus out of strong desire to have an FMMO hearing now. Instead, we are sharing it publicly and with USDA to show there are differences of opinion within the dairy community over how to proceed and because we think it is a better and more forward-thinking concept than what NMPF has said they plan to propose. We believe in order reform, but we would prefer to tackle more than just Class I pricing if we are going to go to the trouble and effort of having a hearing with national scope. Ultimately, the dairy community might not be ready yet to tackle a hearing with a broad scope, but we are working to prepare ourselves and our members for that discussion if and when it comes.

Thank you for your time and attention to this matter. We appreciate the experience and background that your leadership brings to dairy-specific issues at USDA. We would welcome any questions or comments you or your staff have regarding our proposal.

Regards,

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CC: FMMO administrators