

American Dairy Coalition: Defends temporary return to Class I 'higher of' milk price formula until USDA hearing process evaluates options

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GREEN BAY, Wis. – There are several key reasons American Dairy Coalition supports a temporary return to the previous Class I milk pricing formula using the 'higher of' Classes III or IV, until a USDA hearing process can evaluate other ideas including a change made in the 2018 Farm Bill to an averaging method plus 74 cents, which was implemented in May 2019.

“We know calling for a temporary return to the previous Class I formula — while various ideas about Federal Milk Marketing Orders (FMMO’s) are sorted out — isn’t going to happen overnight, but the process needs to begin. We are also looking futuristic and beyond a recent short-term shift and what the futures markets currently show us because a lot of dairy farmers have suffered severe loss of revenue due to milk being removed from the federal orders. Subsequently farmers have lost confidence in the functioning of the FMMOs and question the value of purchasing available risk management programs under the average of pricing formula,” said Laurie Fischer, CEO of American Dairy Coalition about the ADC Board’s passage of a motion to support returning to the 'higher of' temporarily until a long-term solution can be examined.

“Decisions need to be made on what is sound economically over the long-term, not short-term. Long-term, using the 'higher of' is best economically and provides the proper economic signal. If a decision is made solely on short-term economic gains, then there will be constant flipping back and forth — a direction the dairy industry too often takes,” said Calvin Covington, retired cooperative CEO and former breed association executive with vast experience in Class I fluid milk markets, multiple component pricing and FMMO order reforms.

“The previous ‘higher of’ milk pricing formula allowed us to participate in risk management strategies with the confidence they could help protect our business from market shocks. Under the new ‘averaging method,’ risk management results are no longer as predictable. So, in addition to living with a milk pricing system that is not as responsive to unexpected market conditions, our experiences over the last 18 months have caused us to lose confidence in using these risk management tools,” said Linda Hodorff of Second Look Holsteins in Wisconsin and Broken Bow Dairy in Nebraska.

Fischer said ADC has been hearing from producers and collaborating in conference calls for over a year with momentum building months ago for this step as a stop-gap measure.

“We have known since June that the wide divergences we saw for many months between Class III and IV are now coming together,” Fischer noted. “The future markets at one point predicted this would happen at the beginning of this year, even late last year, but it never materialized until the July 2021 Class I price was announced, in just two weeks of dairy commodity trade which immediately followed Senator Kirsten Gillibrand’s May 26 announcement that she wanted a hearing on milk pricing.”

That hearing was held last week in the Senate Ag subcommittee on dairy, livestock and poultry, chaired by Sen. Gillibrand. Two hours of discussion with six testifiers provided a multi-faceted short- and long-term view which addressed current challenges with the FMMOs including the Class I change.

During the Sept. 15 hearing, Sen. Gillibrand cited the over \$750 million in Class I losses over a 26-month period, a figure confirmed by National Milk Producers Federation and several dairy economists.

“Currently, Class I is benefiting from the new averaging method with the 74-cent adjuster,” Fischer explained. “If we include the small benefit ranging 34 to 69 cents for July through September, the net loss across the 29 months of implementation so far is still \$720 million, or the equivalent of 67 cents on every hundredweight of Class I milk shipped since May 2019.”

Looking at today’s milk futures, the Class III and IV gap could stay narrow across the next six to 12 months of contracts — “but we’re not there yet, and what worries my members is how do they protect their costs of production when they have no way to protect their risk when the market experiences a shock and processors decide to remove milk from the federal orders. Luckily, in the past some processors shared these benefits with their farmer patrons, but unfortunately others didn’t.

“Right now, Class I does benefit from the averaging of milk pricing method, which can max out at 74 cents on the top-side. But if that gap between Classes III and IV

widens again, there is no limit to the losses on the bottom-side,” said Fischer. “The Class I change was made quickly without a hearing process to examine it, and farmers were told it would be revenue neutral.... Meaning it would not harm farmers. This didn’t happen, and farmers ended up being harmed by how this change affected their milk checks and risk management strategies during periods of market stress and volatility when they needed them most,” said Fischer. “Beginning the process to return to the ‘higher of’ method is necessary to protect farmers from future distortions as they navigate uncertain markets.”

Fischer said the American Dairy Coalition stands ready to collaborate on long-term solutions to this and other FMMO challenges so these federal orders function as intended for all parties — producers, cooperatives and processors — can successfully manage their businesses in a dynamic and changing dairy industry.