

Edge Dairy Farmer Cooperative: Unveils milk pricing reform priorities

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GREEN BAY, Wis. — Edge Dairy Farmer Cooperative, one of the largest dairy co-ops in the country, stressed flexibility and fairness today in announcing its priorities for reforming the federal milk pricing system.

“Edge is intently focused on strengthening the relationship between farmers and processors in a way that increases transparency, fairness and competition, and gives farmers a reasonable amount of price certainty,” Edge CEO Tim Trotter said.

Edge’s proposal primarily focuses on two key principles — flexibility and fairness. Differences across the Federal Milk Marketing Orders (FMMO) require added flexibility to meet their respective needs, and current markets driving milk outside the FMMO system point to a need for a standard set of “contracting principles” to build a more fair and equitable pricing system, Trotter said.

Discussions about the future of the FMMO system have increased in recent years, drifting from the Class I mover formula to negative producer price differentials (PPDs) to make allowances and beyond. The effects of the pandemic only intensified the debate.

Edge has done research, listened to members and engaged with industry leaders and other stakeholders from across the country for more than a year, including coordinating a multistate task force, Trotter said. His group’s members span the Upper Midwest and do business with more than 30 private processors. As a milk

testing verification co-op, Edge does not market milk.

“What we keep coming back to is the relationship between our farmers and processors,” Trotter said. “That relationship must transition from strictly transactional to strategic — one that is based on a longer-term view, adaptability to markets and customers, and requirements for products. A transparent, business-to-business approach will be critically important to success for both farmers and processors.”

Under the flexibility priority, Edge’s proposal accounts for differences in product mixes across the country, said Mitch Davis of Davis Family Dairies in Le Sueur, Minn., who is a member of Edge’s board of directors and participated in the task force.

“More regional flexibility in the federal orders would benefit everyone,” Davis said. “With our proposal, each order would have the authority to operate its milkshed in a way that makes sense for that order.”

To promote fairness, Edge is proposing 10 “contracting principles” that would cover timeliness of payments, transparency in pricing formulas, incentive payments, competitive risk management and other aspects of business between farmers and processors.

“Regulations should support fair and equitable dealings between farmers and processors. These contracting principles would make the system more fair and equitable and also strengthen trust between farmers and processors,” Davis said.

The original purpose of FMMO regulations revolved around the orderly marketing of fluid milk, by generating revenue sharing across the remaining classes of milk, said Dr. Marin Bozic, a leading dairy economist who is an advisory member on Edge’s board of directors.

Historically, Class I was the dominant utilization class, and revenue from beverage

milk sales sufficed to elevate and equalize prices processors of different manufactured dairy products could pay to their patrons, he said. In certain areas of the country, that remains true but not for the majority. Now, most of U.S. milk goes into cheese, butter and powder manufacturing facilities.

“The only way that FMMOs do not become irrelevant to the cheese-producing Upper Midwest is if we return to the original idea of FMMOs,” he said. “That is the essence of a ‘uniform benefits’ approach. No more cross-subsidization between manufacturers, and no more negative PPDs.”

But the industry needs to go beyond FMMOs to set a new foundation for success and trust between farmers and processors, Bozic said.

Agriculture Secretary Tom Vilsack has said industry consensus is necessary for pricing reform to be possible.

Bozic stressed the need for a broad and open debate.

“Class I mover reform cautions us against defining consensus too narrowly, and crafting policies beyond tightly closed doors, as the resulting reform may suffer from fragile or flawed design,” he said.

“I applaud Edge for its grassroots efforts to expand the dairy policy debate beyond FMMO maintenance issues and working collaboratively with dairy processors to find common-sense solutions that will set U.S. dairy on a trajectory for success,” Bozic said.

Trotter said Edge welcomes the opportunity to continue to work with other groups.

“As a dairy community, we need to be diligent in finding commonalities in our approaches to improvement,” Trotter said. “We all know how diverse this industry is, so reaching consensus takes time. Whether we do get to full agreement on pricing reform remains to be seen. For our part, Edge is looking at this proposal as a

starting point. We continue to pursue collaboration, building relationships one at a time.

“The end result must be a system that fosters transparency, trust and collaboration between farmers and processors, and a more attractive marketplace for both parties.”

THE PRIORITIES

1. A more flexible system that gives each federal order the authority to operate its milkshed in a way that is sensible for that order. This would:

- Account for geographic differences in population, farmer base and product mix.
- Avoid unintended consequences of current uniform price rules, such as frequent switching of pooling status, negative producer price differentials and declining share of total area milk production pooled on the order.
- Achieve through “uniform benefits” principle instead of the currently used “uniform price.”
- Be developed through collaboration of farmers and processors and then formalized in an inclusive USDA hearing after enabling legislation is passed.

2. A standard set of “contracting principles” to make the pricing system more fair and equitable and strengthen trust between farmers and processors.

- Written contracts: All milk supply agreements must be in writing.
- Timely payments: Farmers must be paid in a timely manner, every two weeks, and with no more than three weeks lag. Advance checks should be paid in accordance with what is known about the current month’s prices.
- Verification of weights, test and samples: Unless a farmer opts out, third-party, certified organizations should be utilized to verify milk weights, component tests and samples. Verification organizations are also allowed to provide other services to farmers.
- Transparent pricing formulas: For farmers to be able to effectively manage risk, and understand financial implications of improvement in farm practices, milk composition and quality incentive formulas (such as SCC, protein and volume premiums) must be clearly spelled out in the milk supply agreements, and

sufficient advance notice given before incentive formulas change. Processors should be allowed to set pricing formulas as needed to successfully compete in domestic and overseas markets.

- Contract termination notice: Other than in extraordinary circumstances, processors must give a reasonable amount of time as notice before contracts can be terminated.
- Good faith principle: Processors and farmers must act in good faith, and disputes should be addressed through an arbitration process with meaningful penalties for unfair behavior.
- Equal opportunity to all farmers: No special deals should be allowed. Incentive payments offered to one patron must be offered to all patrons meeting the processor's same criteria, including but not limited to differences for farm location, size and quality.
- Competitive risk management: Farmers should be able to effectively manage price risk using a combination of processor-specific basis contracts and private or government-supported risk management instruments.
- Exclusivity and volume limits: Processors should not impose exclusivity if imposing volume limits or two-tier pricing.
- Equal treatment of processors: These terms should apply to all milk buyers in the United States, irrespective of their ownership structure or participation in FMMOs.

Recording:

[Press conference](#)

Document:

[Priorities handout](#)

Images:

[Tim Trotter photo](#)

[Mitch Davis photo](#)

[Marin Bozic photo](#)

[Edge logo](#)

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About Edge:

Edge Dairy Farmer Cooperative provides dairy farmers throughout the Midwest with a powerful voice — the voice of milk — in Congress, with customers and within our communities. Edge, based in Green Bay, Wis., is the third largest dairy cooperative in the country based on milk volume. Member farms are located in Illinois, Indiana, Iowa, Kansas, Minnesota, Nebraska, Ohio, South Dakota and Wisconsin. More information: www.voiceofmilk.com.