

American Dairy Coalition: Urges Sec. Vilsack to deny petitions for make allowance hearing

Posted on Friday, Apr 14, 2023

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GREEN BAY, Wis., April 13, 2023 — American Dairy Coalition today provided a letter to Agriculture Secretary Tom Vilsack urging him to deny two recent Federal Milk Marketing Order (FMMO) hearing petitions. These processor group petitions to USDA specifically ask for increased payments from farmers' pockets to processors in order to offset higher input costs.

Holding a federal milk pricing hearing on only these 'make allowances' — without the opportunity to look at additional concerns facing dairy farmers — is misaligned. Therefore, ADC is not able to support it.

"As a grassroots dairy farmer organization, ADC believes a comprehensive FMMO hearing is needed. We also do not support 'make allowance' updates based on processors having the ability to voluntarily participate in the cost surveys, which undoubtedly would exclude essential relevant data. Farmers need transparency in order to understand how their net payment is calculated, and these 'make allowances' are not line items. They are embedded in pricing formulas," says ADC CEO Laurie Fischer.

"Dairy farmers cannot take another hit to their milk checks while their costs are also rising — costs that are not included in the FMMO milk pricing equations," she adds.

According to USDA, make allowances are designed to cover the costs of taking raw milk and converting it into the four basic products from which the component values are captured in the end-product pricing formulas for the FMMO minimum price system.

The milk component pricing that is credited with make allowances only captures the value of about 10% of milk sales today.¹ The specific products that are included in the circular end-product pricing formulas are: block and barrel cheddar cheese, salted butter, nonfat dry milk and dry whey.

“This means 90% of total milk sales do not have their end-product prices captured — not even for informational purposes or market transparency. USDA only surveys the prices of the specific products that are used in the FMMO formulas,” Fischer points out.

In the letter, ADC makes the case that, “Processors have the flexibility to offset costs from additional sales opportunities the non-formula products represent without having the increased value they extract from consumers captured and used in the FMMO formulas that establish the minimum prices paid to farmers.”

Fischer notes that farmers have been waiting for a hearing on the Class I mover. The change in that FMMO formula from ‘higher of’ to ‘average of’ was made legislatively in the last 2018 farm bill without a hearing or a vote by dairy farmers. Congress did provide USDA the discretion to move forward with a hearing and examine how the ‘average of’ milk pricing formula impacted dairy farmers two years after it was implemented, but so far farmers are still waiting for a hearing.

“It has been four years. Farmers have lost more than \$900 million in net cumulative Class I value, alone. Their confidence in how their risk management tools work in divergent markets has been reduced. There is consensus in the industry to go back to the ‘higher of’ method. And yet, farmers are still waiting for that Class I mover hearing,” says Fischer.

With so much of the milk market not captured in weekly pricing surveys or FMMO formulas, dairy farmers are asking: *Why are processor costs of production the dairy farmers’ responsibility? How can consumers help carry that?*

“Farmers have seen over-order premiums erode or vanish. They’ve seen milk check deductions multiply. They’ve seen the impacts of de-pooling and negative PPDs with a change in the Class I mover formula. They’ve seen over-base discounts applied to their milk checks, and they also continue to see inflated input costs” Fischer relates.

[Read the ADC letter to Secretary Vilsack](#)

1 - Source: Dr. John Newton, economist, 2019 guest column, *Cheese Market News* https://www.cheesemarketnews.-com/guestcolumn/2019/07jun19_01.html