



June 20, 2023

Dana H. Coale
Deputy Administrator,
USDA/AMS/Dairy Programs,
STOP-0225 Room 2530
1400 Independence Ave., SW
Washington, DC 20250-0225
FMMOhearing@usda.gov

Re: Revised Class III Pricing Formula Proposal

Dear Deputy Administrator Coale:

On behalf of the family dairy farmer members of the California Dairy Campaign (CDC), we respectfully submit a revised proposal to modify the Class III pricing formula to include mozzarella cheese. The most important variable in the Class III price is the cheese price, which must represent the cheese market and include mozzarella, the highest volume cheese produced today.

California Dairy Campaign (CDC) is a grassroots organization of dairy farm families who work together on a range of issues, with a particular focus on improving milk pricing. CDC is a member organization of California Farmers Union (CFU), a state chapter of National Farmers Union (NFU), representing more than 230,000 farmers nationwide.

We request extending the deadline proposed in the United States Department of Agriculture (USDA) Action Plan to facilitate the consideration of alternative pricing formulas that guarantee dairy farmers are paid according to current market rates. Therefore, we urge an extension of the USDA Action Plan until USDA can gather and analyze pricing data and yields for a comprehensive range of dairy products, including mozzarella. This will ensure that minimum milk prices reflect actual market values. Given the level of consolidation and concentration that exists in the dairy sector, federal order minimum prices are more important than ever before to ensure dairy farmers are paid prices that reflect the profitability of the dairy sector today. The federal milk marketing order (FMMO) program is designed to improve dairy farmers' income by stabilizing market conditions and establishing minimum milk prices. Adding mozzarella to the Class III price will make the Class III formula more representative of the cheese market. FMMOs are designed to stabilize market conditions and assure dairy producers of fair treatment in the marketplace while assuring consumers of a consistent and adequate supply of dairy products.

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Add mozzarella to the Class III protein calculation and the National Dairy Product Sales Report (NDPSR):

Proposed Federal Order Language:

Add Section 1000.50(n)(1)

(iii) The U.S. average AMS survey price for mozzarella cheese (weighted average moisture and butterfat content) reported by the Department for the month;

The National Dairy Product Sales Report (NDPSR) is updated to include mozzarella cheese. The mozzarella price included in the Class III formula will be the weighted average moisture and butterfat content. The Class III cheese input factors shall be the weighted national annual production of each of those cheeses for the prior calendar year.

In preparation for introducing our Class III formula change proposal, we requested information about mozzarella values, volumes, and specifications from USDA. The limited information USDA is currently authorized to provide confirmed that the volumes and values of mozzarella are significantly higher than cheddar cheese on which the Class III formula is based. We support the addition of mozzarella cheese to the National Dairy Product Sales Report, so total pounds sold, dollars received, price per pound, and moisture content can be included in the Class III price formula.

At our request, USDA staff provided important information about a recent government procurement award that documents the sale of a low moisture, part-skim, string mozzarella delivered from July 1 through September 30, 2023, with an average price per pound of \$3.6445, with a range of \$3.5637 to \$3.8898 per pound. Current cheddar cheese prices traded at the Chicago Mercantile Exchange (CME) and reflected in the AMS survey price average less than \$1.50 per pound. The sales data provided by USDA confirms that the mozzarella price is more than double that of average CME cheddar prices, even while considering shipping costs and other factors. We consider the purchase price for a government procurement award an important indicator of an applicable market-clearing price for mozzarella cheese. In addition, USDA provided information about mozzarella prices paid in Wisconsin which averaged more than \$1 per pound above the average cheddar price.

Unlike during the last federal order hearing when minimum pricing formulas were debated, the volume of mozzarella production is now greater than that of cheddar cheese. Yet, dairy farmers nationwide are excluded from this profit opportunity because mozzarella is not included in the Class III price formula. The current Class III formula is based on the price of cheddar cheese, a lower-price and lower-moisture cheese. The current end-product pricing system for cheese should be revised to be more market-oriented and representative of the cheese market. Mozzarella is the cheese produced in the highest volume today, and we support incorporating mozzarella into the Class III formula to ensure that current values and specifications are incorporated in the price that dairy producers receive. Processors have realized the profitability of mozzarella cheese, and dairy producers should be able to realize the profitability of this product as end-product pricing formulas intend.

Attached is the **FAMILY FARMING and DAIRY POLICY REFORM 2023 SPECIAL ORDER OF BUSINESS** passed earlier this year at the National Farmers Union Annual Convention in San Francisco, CA. As the NFU Special Order indicates, we oppose the call for a federal milk marketing

order hearing. According to the NFU Special Order, if a hearing is granted, it is essential that any modifications to the federal order minimum pricing formulas take into account the volume and value of all dairy products, particularly high-moisture cheeses such as mozzarella.

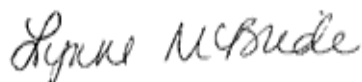
We have requested information from USDA on the current sales data, yield factors, and volume of mozzarella cheese to be integrated into any Class III minimum pricing formula revision. Despite mozzarella cheese's increasing volume surpassing that of cheddar cheese, the current Class III pricing formula does not recognize this lucrative segment of the cheese market, and dairy farmers cannot benefit from this growing profit opportunity.

We acknowledge the limitations faced by the USDA in gathering data on mozzarella production to include up-to-date dairy product information in the Class III federal order minimum pricing formula. We respectfully request that the USDA extend the hearing timeline until access to audited data on dairy product volumes, values, and yields for all milk classes in the federal order is available. Once more information is available about the value and volumes of mozzarella cheese and its various compositional requirements, we can add detail to our proposal about the most appropriate specifications, including moisture levels and other cheese characteristics to be added to the Class III pricing formula.

In recent months, milk prices paid to dairy farmers across the country have plummeted to well below production costs, and we oppose any attempt to amend the federal milk marketing order minimum pricing formulas that would further lower milk prices paid. We write in opposition to petitions submitted by the International Dairy Foods Association, National Milk Producers Federation, and the Wisconsin Cheesemakers Association calling for increases in the manufacturing cost allowances or make allowances. The United States Department of Agriculture (USDA) requires access to the information necessary to update the manufacturing cost allowances. USDA lacks the authority to conduct mandatory audits of manufacturing plants and access information about a wide range of dairy products. This dearth of information will lead to an unfair increase in the manufactured cost allowance, which we firmly oppose.

We appreciate your attention in this regard and look forward to working with you on issues that affect California's dairy farmers. Thank you in advance for your consideration of our request.

Sincerely,

A handwritten signature in cursive script that reads "Lynne McBride".

Lynne McBride
Executive Director



FAMILY FARMING and DAIRY POLICY REFORM 2023 SPECIAL ORDER OF BUSINESS

Although milk prices paid to dairy farmers improved in 2022, feed prices and input costs reached record highs reducing dairy farm profitability. Since 1992, the number of US dairy farms has decreased by 79 percent or more than 103,577 farms due to low dairy farm margins. **To reduce dairy farm closures and improve the outlook for US dairy farmers, we call on Congress to pass a farmer-led incentive-based milk production growth plan to match milk supply with profitable market demand.**

As a result of widespread market concentration and consolidation, dairy farmers have little if any choice about where to ship their milk further depressing milk prices paid due to a lack of competition. The federal milk marketing order system was set up in the 1930s to establish **minimum prices** paid to dairy farmers and guard against non-competitive and predatory practices of milk handlers. Prior to the establishment of the federal milk marketing order system, dairy farmers around the country were at the mercy of milk handlers who controlled milk prices paid. Because milk is a highly perishable product that must leave the farm each day, federal milk market order regulations are vital to ensure dairy farmers are paid a minimum price for the milk they produce.

The last federal order hearing to consider major changes in the pricing formulas occurred 15 years ago and the dairy market has grown dramatically more concentrated since then, making federal order minimum milk pricing more important than ever before. Dairy farmers do not have the ability to change milk handlers given the level of consolidation and concentration that exists today. Therefore, minimum milk prices must ensure that dairy farmers are paid a price that reflects the value of all milk and dairy products sold to sustain dairy farmers and foster a secure food supply for consumers.

During the 2018 farm bill, Congress made a change in the Class I formula that led to more than \$1 billion in losses to dairy farmers nationwide. The losses that resulted from the Class I price change demonstrate that amendments to federal order pricing should be made through the 12-step federal order hearing process, not through legislation. However, to immediately restore the Class I formula, we call on Congress to pass legislation to return to the higher value of Class III or Class IV instead of the average plus 74 cents.

Although the federal order system is set up to maximize dairy producer participation in the process, it is difficult if not impossible for dairy farmers to take a public position in opposition

to that of their milk handler. Federal order hearings are made up of legions of lawyers and economists representing dairy processor interests that far outnumber dairy farmers and the organizations that represent them. For this reason, it is imperative that USDA convey added weight to positions taken by the limited number of dairy farmers willing to participate in public hearings.

NFU opposes the call for a federal order hearing, but If a hearing is granted by the United States Department of Agriculture (USDA) NFU supports:

- Establishing a price discovery formula at the producer level through a growth management program that incentivizes matching production with market demand;
- Reforming all Class formulas to reflect the value and volume of all dairy products sold in the market today as current milk pricing formulas fail to reflect the actual market value of dairy products, particularly higher moisture, and higher value cheese products;
- Requiring mandatory participation of processors in an audited National Agricultural Statistics Service (NASS) survey and in an audited cold storage report; and
- Establishing a national make allowance that is adjustable to reflect the difference between milk prices and the producer's cost of production. This allowance should be generated from the market, not deducted from the established price through end-product pricing.