

February 22, 2024

The Honorable Thomas J. Vilsack
Secretary, U.S. Department of Agriculture
200A Whitten Building
1400 Independence Avenue, S.W.
Washington, D.C. 20250

RE: Request for Emergency Return to “Higher-of” Class I Mover

Dear Secretary Vilsack,

On behalf of our members across the country, we thank you for the U.S. Department of Agriculture’s continuing effort to provide price stability and transparency to dairy farmers. U.S. dairy farm families face many challenges as they make their critical contribution to the well-being of our nation.

One of those challenges is the ongoing milk price spreads that have substantially lowered farmer milk prices under the current “average of” Class I mover formula. The American Farm Bureau Federation and National Farmers Union request that you address this challenge by issuing an interim final decision in the current federal milk marketing order hearing process that returns the Class I mover formula to the “higher-of” the Class III or IV calculations, as it was before the 2018 farm bill.

The 2018 farm bill included a provision that swapped the higher-of the advanced Class III or IV skim milk price formula for the simple average-of advanced Class III and IV skim milk formulas plus 74 cents. This was intended to produce a roughly equal long-term Class I milk price. This statutory change was made at the request of dairy processors and dairy cooperatives and was intended as a revenue-neutral way to improve risk management opportunities for beverage milk.

The current formula was based on a quick legislative decision and not based on a hearing record of demonstrated need; it has also not turned out to be revenue neutral for dairy farmers. A return to the “higher-of” is supported by the record in the current hearing, as well as by the rulemaking at the time it was first established in 2000.

Disruptive market conditions during the recent pandemic exposed and exacerbated a temporary but serious shortage of block cheddar cheese production. This led to very high Class III values, a huge imbalance between Class III and Class IV prices, and over \$700 million in Class I revenue losses to producers in the 11 federal order pools in 2020 alone resulting from the “average-of plus” Class I mover. This, along with the delay associated with advanced pricing, resulted in manufacturing milk prices higher than the market blends, leading to massive de-pooling of producer milk by manufacturing plants to capture those higher market prices. These large negative producer price differentials created significant disparities among the milk checks of different groups of farmers. These losses in pool value have continued through 2023 and into

2024, as Class IV prices have become the driver of the dairy market and the gap between Class III and Class IV prices has flipped, but remained large, with no end in sight. As of December 2023, cumulative pool losses have surpassed \$1 billion since the formula went into effect in May 2019, including pool losses of \$50 million in November 2023 and \$38 million in December of 2023. Dairy farmers with pooled milk face ongoing threats of decreased milk checks linked to the current Class I mover formula.

The members of both our organizations, through our respective grassroots policy development processes, have unanimously expressed the high priority they put on a speedy return to the “higher-of” Class I mover.

AFBF policy states: *“(G)iven the circumstances of the Class I mover changes in the 2018 farm bill, we support returning to the Class I milk mover formula to the higher-of Class III or IV in the most expedient manner possible.”*

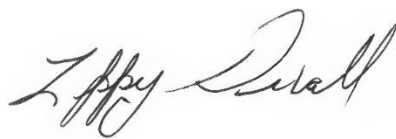
A special order of business adopted by the delegates at the 2023 National Farmers Union Convention supports the immediate return to a Class I pricing formula based on the higher-of Class III or Class VI.

In a forum held in Kansas City in October 2022 to address federal milk marketing order issues, the recommendation with greatest support from the 300-dairy farmer-majority participants was for a return to the “higher-of” Class I formula.

The FMMO hearing process has completed only step 5 of a 12-step process before changes would potentially go into effect for our dairy farmers. With about \$55 million in Class I losses related to the current Class I formula in January 2024 alone, each additional month without a change poses a threat to dairy farmers’ livelihoods. An interim final decision could speed implementation of this change by six months or more.

We understand that USDA is undertaking a comprehensive process of amending federal orders; however, dairy farmers remain stuck with current pricing regulations until USDA publishes a final rule. Current market dynamics underscore the need for expedited return to the “higher-of” Class I mover. The current Class I mover was a well-intentioned but misguided policy that has reduced dairy farmer income. Emergency implementation of the “higher-of” Class I mover formula will staunch persistent losses associated with a policy that has left dairy farmers struggling to make ends meet.

Sincerely,



Zippy Duvall
President, American Farm Bureau Federation



Rob Larew
President, National Farmers Union