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CLASS I MOVER

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The 2018 Farm Bill changed the Class I mover at the urging of dairy processors, who sought greater predictability in managing risk on sales of fluid milk products. The formula was changed from a system that set the mover each month at either the Class III or Class IV price, whichever was higher (the “higher of” formula), to a set \$0.74 /cwt added to the average of Class III and Class IV prices. This update reflected historical trends and was designed to be revenue neutral between processors and dairy farmers.

But the COVID-19 crisis dramatically changed price relationships from historic trends, spotlighting a glaring flaw in the mover that must be rectified to ensure orderly markets and a healthy dairy sector. As USDA purchased large amounts of cheese for the Farmers to Families Food Box program, Class III and Class IV prices sharply diverged. As a result, the new Class I mover led to an estimated \$725 million in losses for farmers compared to the “higher of” formula. The unequal risk dairy farmers bear compared to processors during unusual market volatility means the mover must change.

OUR POSITION

The Class I mover was explicitly intended to be a revenue-neutral solution to the concerns of fluid milk processors about hedging their price risk. A modified approach is necessary to preserve these goals now and in the future.

This issue can be addressed through the federal order system at the national level. NMPF supports a proposal to recalculate the current \$0.74/cwt every two years using the average of monthly differences between the higher-of, and the average-of, advanced Class III and Class IV prices during the prior 24 months, with the current mover serving as the floor. This preserves the mover predictability that processors sought while addressing the asymmetrical risk currently borne unfairly by farmers under the Class I pricing formula.

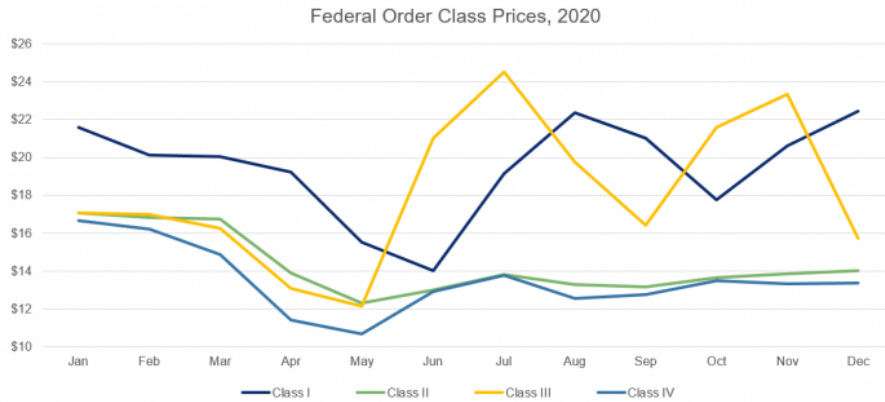
KEY POINTS

- The wild divergence of Class III and Class IV prices during the COVID-19 pandemic highlighted a flaw in Class I milk pricing that needs to be addressed, both for past effects and to ensure orderly markets in the future.
- Dairy farmers treated as legitimate the original concerns expressed by processors that led to the farm bill change in the mover. Farmer concerns regarding the real-world effects of that change are legitimate and must be addressed to reduce disorderly marketing conditions. Processors need to fairly share in the impacts of shifting market conditions, especially as inevitable abnormal times arise.
- To ensure that this important matter be dealt with in a timely and effective fashion, NMPF requests that USDA limit an emergency marketing order hearing to proposals on the Class I mover, to prevent needless delay.

MORE INFORMATION

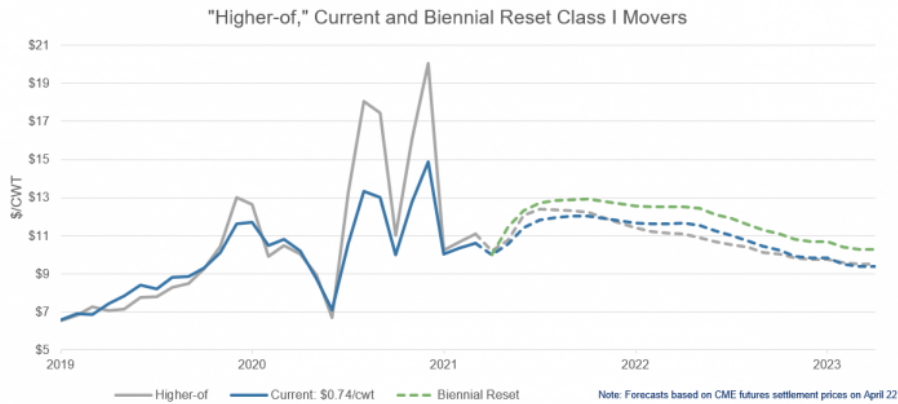
- An Overview of the Federal Milk Marketing Order Program (<https://web.archive.org/web/20210513083529/https://www.ams.usda.gov/sites/default/files/media/DairyFMMOBooklet.pdf>), USDA

Market Imbalance Disturbs Price Alignments



(https://web.archive.org/web/20210513083529/https://www.nmpf.org/wp-content/uploads/2021/04/Class-I-Mover_Graphic-1.png)

Biennial Reset Offers Farmers Fair Pricing



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RESOURCES

NMPF'S MULHERN DISCUSSES CLASS I MOVER REFORM

May 05, 2021

(<https://web.archive.org/web/20210513083529/https://www.nmpf.org/nmpfs-mulhern-discusses-class-i-mover-reform/>)

DAIRY FARMERS TO SEEK EMERGENCY USDA HEARING ON CLASS I MOVER REFORM

May 04, 2021

(<https://web.archive.org/web/20210513083529/https://www.nmpf.org/dairy-farmers-to-seek-emergency-usda-hearing-on-class-i-mover-reform-2/>)

DAIRY FARMERS TO SEEK EMERGENCY USDA HEARING ON CLASS I MOVER REFORM

April 23, 2021

(<https://web.archive.org/web/20210513083529/https://www.nmpf.org/dairy-farmers-to-seek-emergency-usda-hearing-on-class-i-mover-reform/>)

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Thanks Stephen for sharing all the great things happening on your farm and in the industry! We appreciate your leadership and advocacy!

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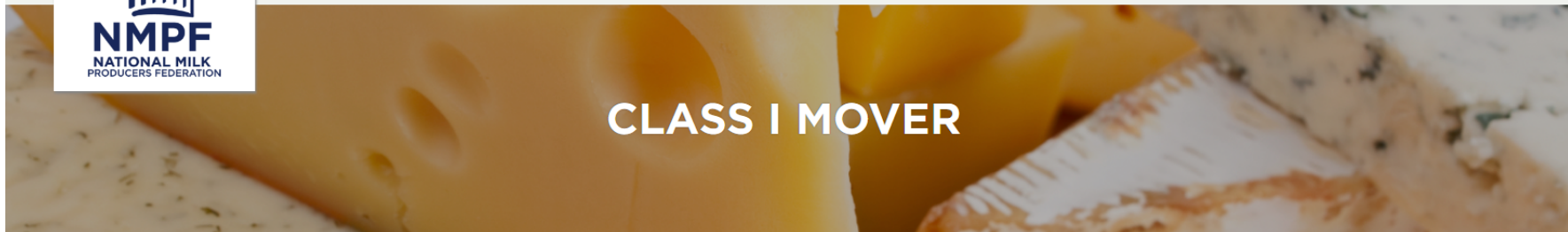


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