

From: Dave Carlin <dcarlin@idfa.org>
Sent: Friday, September 29, 2017 9:37 AM
To: Michael Dykes <mdykes@idfa.org>; Jim Mulhern <jmulhern@nmpf.org>
Cc: Peter Vitaliano <pvitaliano@nmpf.org>
Subject: RE: Edits to Class I mover document

Jim and Peter,

Sorry for the mix-up. I must have grabbed the wrong version from my file before our meetings on Wednesday. I can confirm from a review of my email that we have been using the correct version in all of our other conversations with our members. I am happy to send the agreed-upon version (attached above) to the House and Senate staff we met with on Wednesday and copy you on that transmittal. Please let me know if that works on your end.

Again – sorry for the confusion and mistake on my part.

Regards,

Dave

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MAKING A DIFFERENCE FOR DAIRY

NMPF and IDFA Dairy Price Risk Management Recommendations for the Upcoming Farm Bill

Goal: Provide tools needed to allow processors, cooperatives and dairy producers to better manage price risk on all Classes of milk regulated under Federal Milk Marketing Orders (FMMO).

Both IDFA and NMPF support changing the Class I mover from the higher of Class III and Class IV to the simple average of Class III and Class IV, with an adjustment in Class I differentials based on historical relationships between the current and proposed mover.

Changing the Class I mover to the above referenced price format would:

- balance processor desire for better price risk hedging with cooperative and dairy producer desire to maintain FMMO integrity.
- eliminate the uncertain basis that occurs when the mover shifts between Class III and Class IV.
- allow the use of existing Class III and Class IV futures and options to manage Class I price risk with minimal changes to the FMMO system.
- provide several benefits that can result from the ability to hedge longer-term costs for fluid milk products.
- allow processors to manage price risk for dairy beverage ingredients, as they currently can for non-dairy ingredients.
- allow dairy producers to effectively hedge the Class I portion of their producer milk payments, as they currently can for the other portion of their payments.
- encourage and promote the use of dairy ingredients in new fluid milk and dairy-based beverages that meet Class I specifications.

Both IDFA and NMPF support:

- changing the formula for the Class I price from the higher of Class III or IV to the average of Class III and IV plus \$0.74 per cwt. for determining the price of Class I skim milk (equivalent to \$0.71 per cwt. for the Class I price at 3.5% fat), and
- implementing this change legislatively in the Farm Bill and maintaining it in effect thereafter unless modified by amendment through formal rulemaking under the Agricultural Marketing Agreement Act.

Both IDFA and NMPF support extending the current FMMO forward pricing program for Class II, III and IV milk, recognizing that:

- the use of risk management is now a widely-accepted practice for these classes of milk.
- the FMMO Risk Management Program use would continue to be reported to USDA.

Both IDFA and NMPF agree that effectuating these changes will improve price risk management for Class I milk.