Updating Outdated Federal Milk Marketing Order Class I Price Surface Map

Supporting the NMPF Proposal # 19

My name is David Pool and I, along with my wife, Martha and two daughters, Caitlyn and Taylor operate Fantasyland Farm, LLC located in Robesonia, Pennsylvania which is in Berks County. Currently, we milk about 190 cows, raise about 200 replacement heifers and farm approximately 425 acres of ground where we predominantly grow corn, soybeans, and small grains. Our farm markets its milk through Maryland & Virginia Milk Producers Cooperative, Association, Inc. In addition to farming, I currently serve as first vice-president of our cooperative's board of directors.

I will share a little of my backstory to provide some context of how my interest and involvement in dairy marketing and policy was developed. Having grown up on a family dairy farm in New Jersey, at the young age of 17, I decided to go to work on a larger neighboring dairy farm where I eventually became their herdsman. There I was able to acquire ownership of about 30 cows of my own. In 1988 I moved from New Jersey to Pennsylvania where I rented a barn and grew my herd to 50 cows. In 1992, the opportunity became available to rent the current farm where we still farm today, so I took my 50 cows and added 60 more to milk a total of 110. My wife and I purchased the farm in 1995 and then in 1999 we committed to a major investment where we built a brand-new free stall barn and parlor capable of housing and milking up to 250 cows. By the year 2000, I had become one of the larger farms in the area. Up until that point, farming was all about the cows. While that largely remains true today, taking on that kind of life-changing debt forced me to approach my farm more as a business and not just a way of life. With so much at stake I decided that I had better take an interest in how my milk is priced, what factors affect that price and how policies, good or bad, affect those factors. Perhaps coincidentally, my interest in all of this began in the first year of implementation of the latest major reform of the Federal Orders.

I am here to testify today in support of the National Milk Producers Federation proposal to update the Class I differential pricing surface throughout the United States. With twenty plus years of living and learning within the current policy I have been able to see some things that work and others that don't. I have observed several changes in the milk markets. More specifically in Federal Order One which the milk from my farm services. In 2000, there were an average of 17,279 farms pooled on the Order compared to an average of 8,317 farms in 2022. That is a decrease of more than fifty percent. In 2000, there was nearly 24 billion pounds of milk associated with the Order compared to nearly 27 billion pounds in 2022. An increase of nearly 12%. Conclusion, there is more milk coming from fewer farms.

Demand for Class I milk has also decreased substantially. In 2000, nearly forty-four percent of the milk associated with Federal Order One was utilized as Class I milk. That number has dipped below thirty percent in 2022. Coupled with less demand, there are fewer Pool Distributing Plants. In 2000 there were sixty Pool Distributing Plants in Federal Order One compared to forty-eight in 2022 which is a reduction of twelve fewer Pool Distributing Plants. With these closures, farmers in the Federal Order One marketing area as well as many other parts of the country have seen their distance to the next closest Pool Distributing Plant increase substantially. While I am one of the fortunate few farmers who hasn't seen quite as many plant closures in the area where my farm is located, even though the distance to the market hasn't changed substantially for my farm, the costs to deliver to the market sure have. Since 2000, I have seen a nearly three-fold increase in my farm's milk hauling cost. Then we were paying nearly $0.60 per hundred weight to get our farm's milk to market. Today, we are paying closer to $1.70 per hundredweight.

While logic might suggest that since the costs of supplying the Class I market has increased and location differentials which were implemented, at least in part to help offset those costs have remained static throughout the period since Order reform in 2000, voluntary over-order premiums would have to improve to offset those differences. Unfortunately, the opposite has happened. Processors are digging in to just maintain, let alone grow their share of dwindling fluid milk sales. The attached chart shows the levels of the Pennsylvania Milk Marketing Board mandated Class I over-order premium. These over-order premiums are also adjusted to include mandated fuel surcharges. I understand that this is a Federal Order hearing and not a hearing that is state specific, however I believe this is a good index to show how over-order premiums have changed in the region of the country where I ship my milk. Inherently, these mandated over-order premiums cannot be substantially higher than the prevailing premiums in surrounding areas or it would be detrimental to the marketplace inside the regulated area. In the early years after Federal Order reform, fluid milk processors gradually increased Class I premiums to levels north of $2.50 per hundredweight in the years of 2009 through 2013. Since then, premiums have trended downward to settle closer to $1.00 per hundredweight since 2017. Clearly, this shows that Class I processors are less willing to increase over-order prices leaving us dairy farmers holding the bag.

To put this into perspective, in the peak years of 2009 to 2023 let's just say over-order premiums were $2.50 per hundredweight. At that same time, my hauling rate was nearly $0.90 per hundredweight. The net difference between the two was a positive $1.60. More recently, over-order premiums have declined to nearly $1.00 per hundredweight. As I said previously, my hauling rate now is $1.70 per hundredweight. The net difference between the two leaves me with minus $0.70. So, between the early 2010's and today, premiums and hauling have affected my net of the two from plus $1.60 to minus $0.70. A total net difference of minus $2.30. Compare this to the net effect of the National Milk Producers Federation recommended Class 1 Differential change which yields a difference of plus $1.76 in the Northeast Marketing area. I believe my figures demonstrate that not all losses will be recovered by this proposed change and should suggest that this change will not create disruptive or disorderly conditions in the marketplace.

It is for these reasons; I urge the USDA to consider updating the outdated Class I Price Surface Map and the location differentials as proposed by the National Milk Producers Federation to help offset the increased costs of servicing and supplying Class I milk to processors. Thank you.