



Federal Milk Marketing Orders

Testimony before

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Agricultural Marketing Service

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John Painter II

Chairman of Dairy and Farm Policy Committee, PFB

First, let me start off by thanking USDA for holding this long-overdue hearing to update our federal milk marketing orders (FMMOs). My name is Johnny Painter. I operate Painterland Farms – a 400 head organic dairy and 5,000-acre crop farm in partnership with my two brothers in Tioga County, Pennsylvania (PA). Our milk is processed by Organic Valley. You may have heard of our operation through my nieces’ famous yogurt business, Painterland Sisters. I will be transparent before I begin my testimony that I understand some of my testimony will contradict with my cooperative’s asks, but I am representing Pennsylvania Farm Bureau (PFB) members. I currently serve on PFB’s Board of Directors and am the Dairy and Farm Policy Committee Chairman. I offer these remarks on behalf of PFB and our over 28,000 members, who primarily are small to mid-sized family farms. To provide some background on PA’s dairy industry, we have roughly 5,000 dairy farms which produce nearly 10 billion pounds of milk annually¹.

I would like to start off this testimony by recognizing the importance of this hearing. The last time our industry saw a comprehensive revision was 2000. Clearly, the economy has changed over the past two decades. Farm Bureau is concerned about the large imbalances in the pricing and pooling of milk, which have recently cost dairy farmers hundreds of millions of dollars. COVID-19 caused unprecedented volatility in milk markets and highlighted the urgent need for the industry to consider ways to modernize the FMMO system. Let me be clear though, Farm Bureau does not want to re-create the system; rather modernizing will fix the major problems without eliminating what is currently working.

While there are multiple factors leading dairy farmers to sell their herds, one of the main reasons is pricing. In PA, our milk pricing is twice as complicated due to the Commonwealth’s over-order premium, but the outdated FMMOs certainly do not help. Unfortunately, our state like many others, is experiencing a trend in declining licensed herds. In 2022, PA averaged 468,000

¹ <https://www.centerfordairyexcellence.org/pa-dairy-goodness-that-matters/pa-dairy-overview/>

cows, which is 6,000 cows less than 2021². I can attest that farmers are leaving the dairy industry, especially Class I producers, simply because the money and labor just is not there. We have a chance to change that narrative by amending the antiquated FMMO system to meet the economic needs of our farmers.

PFB supports National Milk Producers Federation (NMPF)'s proposal 13 to return to the "higher-of" Class I mover. In the 2018 Farm Bill, we changed the way how Class I milk is priced to be calculated using the simple average of advanced Class III and IV skim milk prices plus 74 cents³. While the intention of this change was good, it logistically did not make more money for the farmer. According to a Market Intel⁴ published by American Farm Bureau Federation (AFBF) in 2020, nearly 40% of the time the spread between the advanced Class III and Class IV price was larger than \$1.48. This is concerning because dairy farmers would then have to swallow the cost of a lower Class I milk price rather than receiving the higher-of. PFB's Dairy and Farm Policy Committee has had recent discussions on the number of farmers expanding to other classes of milk to balance out the profit loss usually seen with fluid milk. The current pricing formula does not support an affluent Class I market in addition to the decreasing trend of consumption of fluid milk. USDA must act upon this upsetting trend, listen to the stakeholders in this hearing, and return to the higher of for Class I milk.

Second, we are supporting NMPF's proposal 19 to increase Class I differentials in all locations. For PA, the Class I differential ranges from \$2.00 to \$3.50⁵. The problem here is supply and demand change frequently, so the differential must adapt to reflect these changes in the market. It simply is not fair for our farmers to get paid on fixed prices and adjustments when

² See footnote 1.

³ <https://www.fb.org/market-intel/impact-of-the-farm-bill-change-to-the-class-i-milk-price-on-dairy-farm-income>

⁴ See footnote 3.

⁵ https://www.fb.org/files/Background_Class_I_Differentials.pdf

milk supply and market demands change daily⁶. We strongly encourage USDA to amend the Class I differential to adapt to supply and demand needs, so that our farmers and processors have a more accurate and balanced system. Moreover, I will reiterate proposal 21 from AFBF that asks for the Class II differential to be increased to \$1.56⁷. These updates and increases are a result of our system not being able to adapt with economic and consumer market changes over time.

PFB's fourth recommendation supports AFBF's proposal to adjust yields and make allowances based on mandatory and audited surveying⁸. As AFBF raised in their proposal, we too understand the administrative costs behind this survey, but it is a necessary step to ensuring the price and value of milk is precise. Make allowances must be adjusted, and by using the mandatory cost surveying USDA will determine the exact and appropriate adjustment.

Finally, I understand PFB's last request must be enacted by Congress but since it would impact the FMMO system, I would like to mention it. During my time at PFB, the two biggest complaints I have heard from our farmers is about Class I milk pricing and bloc voting. Farm Bureau believes that dairy farmers should have an opportunity to directly vote on FMMO issues as they impact milk prices and farm profitability. Currently, only dairy farmers who are independent and not members of cooperatives may cast individual ballots. Cooperatives may allow their members to vote independently, but then lose their ability to bloc vote on behalf of their non-participating members. Modified bloc voting would allow for coop members to be able to vote independently and confidentially, while allowing cooperatives to cast ballots for farmers who choose not to vote individually. Again, I recognize this is not something that USDA can

⁶ See footnote 5.

⁷ <https://www.ams.usda.gov/sites/default/files/media/AFBFRvised.pdf>.

⁸ See footnote 7.

adopt, but we would encourage any Congressional office listening today to bring about this much needed legislative change to the system.

I appreciate USDA's time and consideration of PFB's recommendations to the FMMO system. It should be noted that any proposal I did not explicitly mention in my testimony but has been proposed by AFBF, we support as well. The recommendations I laid out today were a result of what our staff hears the most about from PFB's dairy farmers. As I said in the beginning of my testimony, USDA must act upon stakeholder's proposals and modernize the system in a timely manner for the sake of future dairy farmers. We must improve pricing formulas for all classes of milk, but especially for Class I as fluid milk is supposed to be the most profitable, but the current system does not allow for that to happen. Most importantly though, it is crucial for producers and processors to be at the table discussing how to best modernize the system together. Again, I thank USDA for your time, and I would be happy to answer any questions.