

July 3, 2017

Mr. Arden Tewksbury
Manager
Progressive Agriculture Organization
1300 Rattlesnake Hill Road
Meshoppen, Pennsylvania 18630

Dear Mr. Tewksbury:

Thank you for your June 2, 2017, letter outlining current challenges facing America's dairy farmers. I share your ongoing concern for their welfare, and I appreciate your thoughts regarding potential regulatory changes to improve their economic situation.

As I understand, you have proposed that the U.S. Department of Agriculture (USDA) hold a national hearing to consider revisions to the pricing formulas used throughout the Federal Milk Marketing Order (FMMO) system. Under your proposal, the current three manufacturing milk classes would be consolidated into one – a new Class II, while Class I would continue to include fluid milk products. Your proposed pricing for the new Class II manufacturing milk would incorporate an annual national average cost of production as announced by USDA. Pricing for Class I would be based on the Class II price, adjusted by a Class I differential. According to your petition, such revisions would improve dairy farmer revenues by ensuring milk production costs are covered, while maintaining reasonable dairy product prices for consumers.

While considering your request, we used a national econometric model to estimate the impact of basing minimum Class I prices on the USDA national average cost of production. The model compares projected results of pricing changes to a baseline (incorporating no changes) over a 10-year period. In this scenario, we found it unlikely that manufacturers of your proposed Class II products would choose to participate in the marketwide pool within FMMOs as minimum regulated milk prices would not be linked to dairy commodity market prices they receive for manufactured products. Consequently, only producers directly servicing the Class I market would see increases in their all-milk prices compared to the baseline. Other producers would experience a decrease in their all-milk prices because manufacturers would choose not to pool their milk within an FMMO and thus would not be required to pay minimum FMMO prices. Higher prices to some producers would nevertheless stimulate increased raw milk production, further unbalancing the milk supply and demand relationship.

The FMMO program establishes minimum prices based on the relative market value of dairy products as driven by market supply and demand and is not designed to be a price or income support program. Instead, the FMMO program is a marketing tool that helps dairy farmers maintain a better balance in negotiating with processors by enforcing market-based minimum prices, monitoring the accuracy of milk weights and tests, and providing extensive market information to producers and processors to assist in market negotiations. Your proposal appears to seek such price or income support and based on our initial econometric analysis it seems

unlikely that the regulatory amendments you proposed would achieve your goals increasing dairy farmer revenue or conform to established FMMO tenets. Therefore, I must deny your hearing request at this time.

I hope that you will continue your commendable work with the industry and with USDA to identify viable solutions within the FMMO framework, be of benefit to producers and processors, and be in the public interest.

Sincerely,

A handwritten signature in black ink, appearing to read "Dana H. Coale". The signature is fluid and cursive, with a large initial "D" and "C".

Dana H. Coale
Deputy Administrator
AMS Dairy Program