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September 13, 2024

The Honorable Thomas J. Vilsack
Secretary, U.S. Department of Agriculture
200A Whitten Building
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Re. Docket No. AMS-DA-23-0031-0002, Milk in the Northeast and Other Marketing Areas; Notice of Hearing on Proposed Amendments to Marketing Agreements and Orders

Dear Secretary Vilsack,

On behalf of Farm Bureau members across the country, I want to thank you for your Department's commitment to seeking a fair and transparent market for U.S. dairy farmers, particularly through the current Federal Milk Marketing Order amendment proceeding. You and I both understand the financial pressures dairy farm families face year after year and the critical role they play in sustaining our nation's food security and agricultural economy.

We are encouraged by several of the proposed recommendations, including the much-needed return to the "higher-of" Class I base price, increases in Class I differentials, updates to milk composition factors, and the removal of 500-pound barrels from the National Dairy Products Sales Report, but other proposed changes present serious concerns for our members. Large and unjustified recommended increases in make allowances, the lack of an adjustment to the Class II differential, the introduction of a new milk Class for extended shelf life (ESL) milk, and the delayed implementation of updated milk composition factors would undermine the economic viability of dairy farmers nationwide. These changes, if implemented, will harm farmers by reducing milk prices and adding unnecessary complications to an already complex pricing system. I would urge you to reconsider the fairness of these last recommendations and their impact on dairy farmers.

The proposed increases in make allowances are among our most pressing concerns. We understand that price formulas should allow for the true costs of dairy manufacturing, but the current proposals are based on biased, voluntary and incomplete survey data. They do not provide a reliable foundation for such significant changes. The surveys rely on data from small and inefficient plants and put added costs on the backs of farmers. It is hard to understand, for example, why a greater allowance is needed for cheese makers when they are building so much new, and profitable, capacity under the current price formula. I urge you to defer or moderate these make allowance increases, which will lower each of the four Class prices by 74 to 89 cents. We cannot afford to impose further financial burdens on our farmers based on incomplete and potentially biased data.

AFBF supports the proposed updates to milk composition factors which better reflect modern, high-test milk production. However, we strongly oppose the 12-month delay in implementation, aimed at avoiding problems for those using futures markets to hedge. This delay would rob farmers of more than $220 million in pool value during the first year, while the proposed make allowance increases—which also have implications for hedgers in the futures markets—go into effect immediately. If the make allowances aren't to be delayed, then neither should these composition adjustments, to ensure farmers receive fair value for the ever-higher quality milk they produce.

AFBF proposed that USDA update the Class II differential, which recognizes the added value of many fresh dairy products, such as cream and yogurt. USDA created this differential 25 years ago, based on the cost of drying milk. Those costs have gone up, and an adjustment was long overdue. Unfortunately, the recommended decision denied what should be an automatic adjustment partially offsetting higher nonfat dry milk make allowance. This will cost farmers 86 cents per hundredweight of Class II milk.

AFBF also opposes the introduction of a new milk Class for the 8% to 10% of bottled milk that has an extended shelf life (ESL): we believe this new Class is outside the scope of this hearing. As you know, farmers across the country urged you to restore the "higher-of" Class I milk price. Just as you are about to do so, however, it is adulterated with a new Class for ESL with an overly complicated price adjustor and based on the very same "average-of" formula that farmers are determined to be rid of. It is supposed to allow ESL processors to manage their price risks through Class III and Class IV futures, although that would be accomplished more easily by a new Class I futures contract, which the CMEGroup witness at the hearing said they would be open to considering. This new ESL Class adds unnecessary complexity, it fails to give our farmers what they have asked you for, it lets CMEGroup's offerings dictate USDA policy and is outside the scope of the hearing. Please reconsider it and stick to the "higher-of" that farmers have requested.

Dairy farmers, like all farmers, face some tough years ahead. It would be nice if the FMMO could make those years easier. The FMMO system relies on fairness and transparency, and we fear some of these changes could disrupt the balance that ensures producers and processors both benefit from the system. Producer trust in this system depends on its fairness and the help it provides in balancing the terms of trade between farmers and processors. If the system does not reward that trust, it is at risk.

We at AFBF remain committed to working with USDA and other industry stakeholders to ensure that America's farmers—and their succeeding generations—are in the best position to provide the food, fuel and fiber that the nation and the world need.

I thank you for your attention to these issues. Please reconsider some of these recommendations, which would unfairly penalize dairy farmers at a time when they are already experiencing significant economic strain.

Sincerely,

Zippy Duvall, President