

Direct Testimony for Federal Milk Marketing Order Pricing Hearing American Farm Bureau Federation

Category 1: Milk Composition

Prepared August 23, 2023

The American Farm Bureau Federation (AFBF) has nearly 6 million members in all 50 states and Puerto Rico, including many thousands of cooperative and independent dairy farmers. All of these dairy farmers are indirectly or (mostly) directly affected by the pricing provisions of the Federal Milk Marketing Orders (FMMOs).

These dairy farmers play a crucial role in the development of AFBF dairy policy. Every Farm Bureau position and proposal is based explicitly on that policy, developed through a grassroots process in which farmers make the decisions at every step of the way.

AFBF submitted 9 proposals for consideration in this hearing, and appreciates the opportunity to address the four that were accepted by USDA for consideration in this hearing, as well as the clear direction on what may be needed to advance the rest.

A fundamental focus of AFBF's proposals is the reduction or elimination of negative producer price differentials and the de-pooling they cause. We believe that an orderly pool is the key to orderly marketing and the continued benefits of the federal milk marketing orders to farmers, cooperatives, processors, and consumers. The key to an orderly pool, in turn, is above all the proper alignment of the four Class prices.

In addition to our own proposals, AFBF largely supports four of the five proposals submitted by NMPF. (These are proposals 1, 3, 13, and 19.) For these, I will outline any substantive difference in our position, with an explanation for that difference. In the event that NMPF withdraws any of these proposals, wholly or in part, AFBF would ask that USDA consider such whole or partial proposal to be AFBF's proposal to represent.

This statement covers Category 1, Milk Composition, and includes AFBF's response to Proposal 1, made by NMPF.

Category 1: Milk Composition

Response to Proposal 1. The National Milk Producers Federation (NMPF) proposes to incorporate updated component values into Class III and IV price formulas.

AFBF supports the updating of the component values in the Class III and IV skim price formulas, based on the same logic presented by NMPF. Adjusting these values will more accurately define the market value of skim milk used in the skim/butterfat markets and in Class I in all markets.

In component markets, it will ensure that Class I milk prices reflect at least the national average component value, rather than a low outdated value which undermines the premium for Class I milk intended by FMMO pricing formulas, per years of FMMO hearing proceedings. This higher value for

Class I will, like the adjustments to the Class I differentials, increase the Class I price (by an average of about \$0.70 per hundredweight, based on a simple average of 2022 data), reduce the incidence of price misalignments with Class III and IV prices, reduce the size and frequency of negative PPDs, and so reduce incentives for de-pooling, which undermines orderly marketing and the principle of uniform pricing in the market.

In addition, raising the value of skim milk in the manufacturing Classes (II, III and IV) in the skim/butterfat markets will reduce the current misalignment of FMMO minimum prices for those Classes between those markets and bordering component markets. Today, proprietary and cooperative manufacturing plants located in FO 32 or 126, for example, have undue incentive to pool the Class II, Class III or Class IV milk that they receive on FO 5 or 7, for example, because the FMMO minimum price at an average test for that milk in a skim/butterfat order is substantially lower than the minimum price for the same milk in a component order, based on the current outdated component tests embedded in the current formulas. By USDA's calculations, the simple average of this gap was \$0.52 for Class II, \$0.77 for Class III, and \$0.50 for Class IV, in 2022. The incentive produced by this gap creates undue "pool-riding" in the deficit markets of the Southeast (beyond the incentive of higher uniform prices in those markets). This undermines the uniform price in those markets, which makes supplying those deficit markets more difficult. This unnecessary and distortionary incentive to pool on the 'wrong' market would be substantially reduced by adoption of updated component tests in the skim milk price formulas.

Adjusting these component values in the Class II, Class III, and Class IV price formulas, therefore, will improve the orderly marketing of milk in multiple ways.

I ask that the following source be recognized; it was posted on the hearing website by AMS in response to a data request by NMPF.

Source:

USDA response to NMPF data request, "Differences in Class Prices under NMPF Proposal – 2022" See Table 6. Found at <https://www.ams.usda.gov/rules-regulations/moa/dairy/hearings/national-fmmo-pricing-hearing/data>