Wisconsin Farm Bureau FEDERATION

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My name is Kevin Krentz, I am the President of the Wisconsin Farm Bureau and along with my wife Holly, we milk about 600 cows and farm 1,400 acres near Berlin, Wisconsin.

First I want to thank USDA for agreeing to hearing these proposals on FMMO reform. These changes are long overdue. Midwest dairy farmers are in need of urgent reform and the proposals supported by American Farm Bureau will go a long way in restoring balance to a system that has moved away from sustainingly supporting producers.

Wisconsin is America's Dairyland and as such have seen some of the greatest market fluctuations in the country.

While we can talk about Wisconsin's agricultural diversity, but as dairy goes, so goes Wisconsin agriculture. Then how is the dairy industry in Wisconsin?

In 2018, the last time the Farm Bill was being debated and the "average of" was adopted, Wisconsin had 8,800 dairy farms. At the beginning of 2023, there was a little over 6,000 left. That is a loss of almost 3,000 dairy farms or 30%. Milk margins have hit the lowest level since 2019 and the "catastrophic" $4.00 DMC margin level has been breached for the first time. Changes as a result of the 2018 Farm Bill have cost farmers nationally almost $1 billion since May 2020. Not to mention inputs remain high and feed costs continue to increase due to draught conditions across the Midwest.

While the news of farmers dumping milk during the pandemic and most recently earlier this month in Western and Southeast Wisconsin is disheartening, Wisconsin Farm Bureau and American Farm Bureau are supporting several changes that could positively impact dairy farmers.

Wisconsin Farm Bureau is proud to support the following provisions FMMO reform for Federal Order 30:

Dairy

1. <u>Reform the dairy pricing formula, back to the "higher of" as opposed to the "average of"</u>
    a. The change was made during the 2018 Farm Bill at the request of stakeholders.
    b. The Class I mover based on the "average-of" Class III or IV has had terrible impacts on dairy farmers and dairy markets.
    c. Changes in the market could lead to similar price misalignments between Class I and Class IV in the near future, as cheese making capacity grows and cheese prices fall.
    d. This change is being supported by the American Farm Bureau
2. <u>Reduce economic incentives for de-pooling:</u>
    a. De-pooling has several negative effects for farmers (Handlers of Class II, III and IV can de-pool. Class I handlers cannot.):
        i. In some cases, the manufacturer doesn't pay into the pool and keeps the money, taking money out of the pockets of dairy farmers.
        ii. Even when manufacturers do pay the full Class price value to their de-pooled farmers, that creates winners and losers: some farmers get more, and some get

less, which defeats the purpose of the FMMO's to assure farmers in a market get roughly the same price for their milk, regardless of what use it goes to.

iii. Higher chance of negative producer price differentials.

1. Negative PPD's and de-pooling create huge risk for farmers who try to hedge on futures contracts; that is, the relationship between futures settlement prices and actual market blend prices is so volatile that it can increase a farmers risk, rather than manage it. This penalizes farmers for trying to do the right thing in managing their risk.
2. The 2018 farm bill switch from the "higher-of" to the "average-of + 74 cents" further exacerbated these disruptions and made milk checks more confusing.
3. In 2020 alone, over $700 million was lost in the revenue pool, partly due to the formula switch decreasing the payments many farmers received as well as manufacturer de-pooling behavior.
4. At first, this imbalance was linked to COVID-19 forces, however the losses in pool value have continued through 2023, as Class IV prices have become the driver of the dairy market.
5. Cumulative pool losses have reached nearly $920 million since the formula went into effect in May 2019.

b. Provide an example from Wisconsin that supports removing economic incentives for de-pooling.

3. <u>Eliminate advanced pricing of Class 1 milk and Class II skim milk</u>

a. Under the current Class I and Class II pricing formulas, weighted average dairy product prices from the first two weeks of one month are used to calculate advanced prices used to price Class I and Class II products for the following month.

i. This arrangement creates a long lag between when the advanced prices and current prices are announced for that same month and means that the advanced prices can be based on weekly data that is 25 to 40 days older, on average, than the basis for the "current" prices.

b. This means when market prices rally, current prices can be much higher than advanced prices, leading to low and negative PPDs. This creates an opportunity to de-pool milk from the order to benefit from the non-pooled value of the recently elevated prices (without sharing that value with the pool) and further depress the PPD.

c. By removing advanced pricing, all commodity prices would be announced during the same month using the same data, removing any lag time within the pricing system. Combining this adjustment with a switch back to the "higher-of" Class I mover could further reduce price spreads that contribute to a higher probability of handlers de-pooling from the marketplace.

d. Elimination of advanced pricing would not be expected to have a substantial impact on average Class I or overall producer prices, but it would increase average uniform prices in the FMMOs because periodic high manufacturing milk values would not be removed through pooling. During 2020, avoiding de-pooling would have retained billions of dollars in the FMMO pools, helping better maintain uniform prices among producers, rather than large differences between pooled and de-pooled milk values.

e. Example from Wisconsin

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I believe in fairness in pricing and transparency in dairy pricing. Processors and producers both must be profitable but we have to ask ourselves, how many new dairy farms have been created in the last couple years, last decade, last couple decades? We need a pricing system that works for dairy farmers and pays them for the commodity they produce. Without these reforms, we'll continue to see small farms leave and greater consolidation in the industry. These priorities are not only in keeping with Wisconsin's Dairyland heritage but will benefit farms across the order.

In conclusion, these changes won't stop dairy farms from going out of business but the combination of the proposals along with possible Farm Bill changes, give dairy farmers the best opportunity to minimize their risks. Wisconsin dairy farmers aren't looking for to put producers out of business, in fact we need both producers and processors. These changes make it at least possible we could find some symmetry between the two moving forward.

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