Testimony Outline for the USDA Federal Milk Marketing Hearing
In Support of NMPF Proposal to Update the Federal Milk Marketing Order Class I Mover
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Introduction

Thank you for the opportunity to speak with you today. My name is Clara Ayer. I am a third-generation dairy farmer at Fairmont Farm in East Montpelier, Vermont. We are proud members of Agri-Mark, Inc. and have been since 1998. I farm with my parents, cousin, and brother. Together we operate a 1,500-cow dairy across two sites and raise another 1,000-head of dairy replacements, 25-head of beef, 25 feeder pigs, 25 lambs and crop 3,600-acres on our family-owned farm. In addition to animal agriculture, we operate Fairmont Farm & Market where consumers can purchase the farm's beef, pork and lamb, Cabot dairy products, and other local products. My role on the farm is the CFO, Human Resources and Public Relations Director. Before returning to the family farm, I attended Cornell University and after graduation worked for Yankee Farm Credit as a loan officer and tax specialist.

I was elected to Agri-Mark's Board of Directors in 2021 and in 2023 was elected to a board leadership position of 5th Executive Committee Member. As a co-op director, I am focused on the future of Agri-Mark, the Northeast milkshed, and every member's farm along with my own.

Additionally, I am a Director for New England Dairy Promotion, a prior Director for the Vermont Agriculture Innovation Board, and previously was the Secretary of the Vermont Holstein Association. I have been active in Agri-Mark's Young Cooperator program and Vermont Legislative Committee.

Agri-Mark, a dairy cooperative in the Northeast, is owned and operated by over 550 dairy farm families across New England and New York. Our members are pooled in Federal Order 1. The cooperative has been marketing milk for dairy farmers since 1916 and has headquarters in Andover, Massachusetts and Waitsfield, Vermont. Those farm families supply more than 3.2 billion pounds of farm-fresh milk that we use to make our award-winning Cabot branded cheeses, dairy products, and ingredients. Agri-Mark operates three cheese manufacturing facilities located in Cabot, Vermont; Middlebury, Vermont; and Chateauguay, New York. These are pooled supply plants. The cooperative manufactures and markets valuable whey proteins around the world produced at the Middlebury, Vermont facility. Agri-Mark also operates a butter-powder facility in West Springfield, Massachusetts that is a non-pooled supply plant. Additionally, Agri-Mark supplies fresh fluid milk to the region's largest dairy processors.

I am testifying today on behalf of Agri-Mark and our 550 dairy farm families. As farmers and cooperative owners, we recognize the importance of the Federal Milk Marketing Orders (FMMO) and the value they provide to dairy farmers, cooperatives, and processors. We appreciate the time and effort that National Milk Producers Federation (NMPF) and its cooperatives have put in over the last two years to ensure that the FMMOs are modernized. FMMOs are designed to assure consumers an adequate supply of fluid milk and promote orderly marketing for farmers. Amending the FMMOs is critical to ensure that FMMOs evolve with the ever-changing industry and meet the needs of today's dairy industry participants. Agri-Mark is in full support of the National Milk Producers Federation (NMPF) proposal for modernization of the Federal Milk Marketing Orders (FMMO). Additionally, we support NMPF's legislative efforts to give USDA authority to collect data to support future and frequent improvements to the FMMO system.

My remarks today focus on our support of NMPF Proposal 3: Restore the original Federal Order Reform Class I skim milk price mover. NMPF Proposal 3 recommends that the Class I mover calculation be returned to the original "higher of" Class I skim milk price mover.

Since Federal Order Reform, the Class I mover was equal to the "higher-of" Class III or Class IV. This calculation was hugely beneficial for farmers throughout the years it was in place, always returning the best price to farmers.

In 2017, at the request of processors looking for improved price risk management, a group of stakeholder representatives reached a compromise. The agreed upon change, eventually included in the 2018 Farm Bill, and put in place in May 2019 changed the Class I skim milk price mover formula to the average of Class III and IV plus 74 cents per hundredweight. The change was made with the intention of two outcomes: 1) using an average calculation would improve price risk management, and 2) the addition of 74 cents would make the change revenue neutral for farmers over time. While we appreciate that the first of those outcomes has been achieved, we must recognize that the second has fallen short.

As expert witnesses have testified, the current formula creates asymmetric risk for dairy farmers. It puts a ceiling on how much more Class I skim revenue can be generated for producers than the old formula, with no downside limit on how much more revenue can be lost. Since implemented, the change has cost dairy farms nationwide more than $900 million in Class I revenue, with the Northeast order suffering the largest share. The impact was felt by all farmers, regardless of farm size, and was an unintended and unanticipated consequence of changing the formula.

In 2020, in response to the pandemic, USDA created the Farmers to Families Food Box Program. The program heavily weighed its dairy products purchases towards cheese and consequentially caused a wide chasm between the Class III and IV prices. This resulted in Class I skim milk prices averaging $3.56/cwt lower during the second half of 2020 than they would have under the "higher of" mover, equating to $750 million in Class I skim milk revenue, including more than $141 million in the Northeast order.

We are grateful for the Pandemic Market Volatility Assistance Program (PMVAP) created by USDA in 2021. PMVAP returned $350 million ($250 million in Round 1 and $100 million in Round 2) of this lost revenue caused by the government induced pandemic markets back to farmers nationwide, using emergency COVID funds provided by Congress. That equated to 46 percent of the 2020 losses. Our two farms received a combined total of $131,513 based on January to June 2020 milk ($83,993 in Round 1 and 47,520 in Round 2). However, we recognize that ad hoc programs are not feasible nor appropriate in perpetuity.

Unfortunately, the impacts did not end in 2020, and continued in the post-pandemic markets of 2022 and now in 2023. In these cases, underlying market fundamentals drove divergences in the Class III and IV prices. In 2022, Class I skim milk prices averaged $0.62 lower than they would have under the "higher of" mover. That equated to more than $230 million in lost Class I skim revenue, including more than $45 million in the Northeast order. Thus far in 2023, we have witnessed a $1.02/cwt negative impact in the Class I skim revenue in July and $1.67/cwt August impact, with additional losses expected.

Only one of the two intended outcomes of the 2018 change has been met: improving price risk management for Class I processors. The second, farmer revenue neutrality has been grossly under met. Given the price volatility that persists in today's dairy markets, the current "average of" formula is expected to continue to negatively and meaningfully cost dairy farmers compared to the previous "higher of" mover.

Eliminating the asymmetric risk faced by our dairy farmers is top priority. The solution is the adoption of NMPF Proposal 3: Restore the original Federal Order Reform Class I skim milk price mover. I thank USDA for the opportunity to testify today and encourage USDA to adopt this proposal.