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April 5, 2023

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

RE: IDFA/WCMA Petitions for FMMO Hearing on Make Allowances

Dear Secretary Vilsack,

On behalf of Farm Bureau members across the country, I would like to express our appreciation for the U.S. Department of Agriculture's continuing efforts to help provide price stability and transparency to dairy farmers. You and I both understand the financial challenges that face U.S. dairy farm families year in and year out and their critical role in the well-being of our nation. Though we support modernization of outdated elements of the current Federal Milk Marketing Order system, we urge you to reject the current proposals that risk further burden to America's dairy farmers.

The latest available milk cost of production estimates from USDA show that a hundredweight of milk cost dairy farmers $27.50 to produce, but returned them only $21.23, an economic loss of $6.27/cwt. The loss for dairy farms with less than 50 cows was even greater at $21.58/cwt. Given the present situation, we have grave concerns about the petitions submitted by the International Dairy Foods Association (IDFA) and Wisconsin Cheese Makers Association (WCMA) requesting an FMMO hearing to increase make allowances and *solely* increase make allowances. This one-sided approach to updating federal order pricing would be devastating to America's dairy farmers.

Farm Bureau has led the way in engaging across the dairy industry, including farmers, processors, cooperatives, and state dairy farmer organizations, as well with IDFA and the National Milk Producers Federation (NMPF). Last year, we held a Federal Milk Marketing Order Forum in Kansas City in October, where I greeted about 300 dairy folks from across the country who also heard your video message. At that meeting we found consensus across the industry—and especially at the farm level—on a wide range of issues, including the need for any make allowance changes to be based on mandatory and audited surveys of dairy processors.

As you are aware, make allowances can be changed through a hearing. In the past, these were based on a combination of mandatory yield and cost of processing surveys conducted by the state of California, and voluntary surveys conducted by different researchers across the country. The establishment of the California FMMO ended that state's mandatory survey with the 2015 data, leaving only voluntary surveys for use in make allowance hearings. Since it is now clear that such a survey's purpose is to adjust make allowances, voluntary survey participation means processors may choose to participate or not, depending on how they believe their participation may change the price formulas and affect their own bottom line. For example, large efficient processors may decline to participate, which would skew the cost survey results upward. This would increase the deduction to cover processors' cost in the milk price formula, which would skew dairy farmers' milk checks downward.

Farm Bureau believes it is critical that any changes in the make allowance be based on mandatory audited cost and yield surveying, which would provide farmers the assurance that any make allowance change reflects true costs borne by processors. USDA does not currently have the authority to undertake such a survey, so we are working with members of Congress to pass bipartisan legislation that would provide such authority. Initiating a hearing to increase make allowances without this vital framework in place would undercut farmers' confidence in how their paycheck is formulated, further dividing farmers from manufacturers.

IDFA's petition references data in a USDA-commissioned plant cost study from Dr. Mark Stephenson which calculated new weighted average costs of production for dairy products based on voluntarily supplied data from participating processors. When applied to classified values per hundredweight, those calculations could yield across-the-board decreases in the formula milk prices of nearly a dollar per hundredweight, based on increased make allowances. This would reduce the regulated value of farmers' milk by as much as $1.45 billion in a single year.

In addition to potential sample bias in the voluntary survey, the survey results do not take into account the steady increases in plant efficiencies and product yields since the formulas were established. That offsetting trend has not been incorporated into the processors' proposed make allowance increases, so that even if the cost formulas were correct, they are incorrectly applied in the proposed formulas.

Like NMPF, we are also concerned about the limited scope of the hearing requested by IDFA and WCMA. The last major update to the FMMO system occurred in 2000. We believe it is time to consider improvements that better reflect today's milk markets across a much wider range of topics than just make allowances. Once mandatory cost and yield surveying is in place, future increases in make allowances can be paired with adjustments based on plant processing yields. Other adjustments to the Class I and II skim milk price formulas are also justified, based on the rising butterfat and protein content of farm milk. Updates to Class I and Class II differentials are justified by increases in the costs that went into establishing those factors in the first place. And there is a clear demand by producers to return the Class I base price formula to the "higher-of" the Class III or IV formula, which would reduce the frequency and extent of negative producer price differentials and depooling in all markets.

All of these other adjustments to Class price formulas would help offset the negative impacts of increased make allowances to our dairy farmers. We understand the importance of make allowances in encouraging growth and maintenance of processing capacity, but the numbers must reflect the current marketplace in its entirety, not just a biased sample of processing cost data. Any future hearing must consider adjustments that supports the dairy industry as a whole and not only processors, farmers or cooperatives individually.

Finally, we believe the petitions submitted by IDFA and WCMA are incomplete, as they don't satisfy the proposal submission requirements laid out 7 CFR 900.22. Petitions to amend a federal order must contain a description and quantification of the expected impact on all segments of the industry, including dairy farmers, handlers, consumers and small businesses. The proposals submitted by IDFA and WCMA lack this vital information.

Dairy farmers continue to face market challenges as part of the high-cost, high-risk times we live in. Trust is critical to maintaining an efficient and resilient federal order system that promotes orderly marketing of milk to consumers across the country. The petitions we oppose here threaten to undercut trust between farmers who produce the milk and the processors who turn it into the dairy products we all know and love. We urge you to reject the petitions from IDFA and WCMA until comprehensive adjustments can be made to ensure confidence and fairness in how dairy farmers are paid.

Thank you for all you do for American agriculture.

Most respectfully,

Zippy Duvall

Zippy Duvall
President