



National Farmers Statement on Federal Milk Marketing Orders

Ever since the 1930's, Federal Milk Marketing Orders (FMMOs) have set the stage for the fair and orderly marketing of milk throughout the United States. We, the dairy farmers and staff of National Farmers, support the FMMO system. We also advocate for changes that will assure that the system can meet the challenges it is sure to face in the coming decades.

Today, the term Federal Order Reform covers a lot of territory. What it means depends on who you are talking to. For us, when we talk about reforming the FMMO system, we mean making three changes: (1) the system should be national, (2) depooling should not be allowed, and (3) there should be no bloc voting.

We Need a National FMMO

Many of the difficulties facing today's FMMO system result from the fact that not all areas of the country are covered by FMMOs. Instead, we have a patchwork system that covers some parts of the country, but not others. The dairy industry has changed dramatically since the FMMO system was first established. A regional system that once worked well enough no longer fits today's national markets.

During the early years of the FMMO system, 4.5 million farms, averaging five dairy cows per farm, supplied the nation's milk. Today, we have fewer than 35,000 dairy farms. Many are so large they could not have been envisioned even a few decades ago, much less in the 1930's. Indiana's largest dairy, by itself, could supply one-third of the milk administered by the Florida Federal Order. At the same time, some of our dairy cooperatives have become larger than the FMMOs in which they participate. For example, America's largest dairy cooperative has more member milk than is handled by the six smallest FMMOs combined.

The market for dairy products has also changed in ways that stress our current

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system of regional orders. For example, the original FMMO's stressed orderly marketing of Class One sales. Today, milk for bottling is shipped such great distances that designating areas of like supply and demand is difficult, if not impossible. Furthermore, the demand for fluid milk is falling. Many of today's FMMOs have such small fluid sales that pooling has little value.

The FMMO system was created, in part, to allow for more efficient transportation of milk. Cheese, butter, and milk powders move across the country in today's dairy industry. Inefficient transportation results when milk is hauled great distances to capture higher blend prices in various FMMOs. We need a system that recognizes this and encourages processors to locate plants on factors other than lower milk costs created by outdated regulations.

Because of the way our regional markets have become national in scope, we strongly advocate that all dairy farmers in the lower 48 states be included in a single, national FMMO. With the establishment of such a system, these advantages would immediately be set in place:

- No individual farm, cooperative, or private plant would be so large that it could game the FMMO system to its own advantage.
- Dairy prices could be administered in ways that better reflect the national character of today's dairy industry
- National transportation patterns for all dairy products could be rationalized in ways that increase financial efficiency and decrease the environmental costs of shipping milk.
- There would be uniformity in all regulations so that plants in different regions of the country would have the same cost as their competitors in different

In addition to these advantages that a national order would bring, we also recognize that programs providing financial and other assistance for dairy farmers often require information on amount of milk marketed, prices received, and marketing history. In such cases, that information would be readily available in a national FMMO. Also, if national policy required redistribution of revenue among farmers (as now happens with Class One sales), such policies would best be implemented through the FMMO system. Our Dairy Farm Structure Management Plan is an example of one such program that should be

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administered through a national FMMO.

Depooling Should Not Be Allowed

Depooling is a way that those who buy milk from farmers game the FMMO system to their advantage. When it is more profitable for them to stay in the pool, they do so. At other times, they depool and take a bigger share of money out of farmer's pockets. This has to stop.

FMMO market administrators use complex formulas to set prices for milk used in Class 1, Class 2, Class 3, and Class 4. These prices, along with the amount of milk used in each Class, result in a blend price that balances milk sales and money paid to participating farmers.

The blend price is normally higher than what the pricing formulas say the Class 3 price should be. The difference between the blend price and the Class 3 price gets added to the Class 3 price to get the announced price that all farmers must be paid regardless of where they sell their milk. That difference that gets added on to the Class 3 price is the Producer Price Differential, or PPD.

Here is an example from Federal Order 30 in June 2019. The blend price for that month was \$16.52 and the calculated Class 3 price was \$16.27. The difference between these two prices, the PPD, was \$0.25. That amount was added to the Class 3 price to get the announced minimum price of \$16.52. This is the way things work in normal times. Sales to cheese plants get a bump from the PPD. There is no incentive to leave a cheese plant and chase higher prices in a bottling plant. Farmers stay in the pool and are happy to do so.

Not all times are normal, however. The summer of 2020 was one of those times that will never be called "normal" by dairy farmers. The Class 3 price rose so far and so fast that the price formulas were out of sync with markets. As a result, the PPD was negative.

Here's an example, again from Federal Order 30, but this time for June of 2020. The calculated Class 3 price was \$21.04, but there was not enough in total sales to pay that much for all milk sold. To cover the shortfall, the FMMO declared a negative PPD of \$3.81. Participating farmers were guaranteed \$17.23 as a final minimum price.



Most of the milk sold in the United States goes to make cheese. What this means is that, most of the time, a farmer or whoever represents that farmer in the market wants to participate in the FMMO. A negative PPD sends the opposite price signal to farmers and their marketing representatives. They now have an incentive to jump out of the FMMO and sell direct to cheese plants. In the example of June 2020 and Federal Order 30, why take \$17.23 when the Class 3 price is \$21.04? Over 80 percent of the Class 3 milk in Federal Order 30 was depooled in June of 2020.

When higher priced milk is taken out of the pool, that milk cannot be used to calculate a higher price for all farmers in the pool. The announced minimum price goes down, and that is bad for all farmers. Most of the milk in Wisconsin is covered by Order 30. If all the milk sold in Wisconsin had been pooled in June 2020, farmers would have received \$1.34 per cwt. more than they actually got. Put another way, depooling reduced total dairy farm income in Wisconsin by \$40.2 million. On average, that's over \$6,000 per farm in Wisconsin in just one month!

The more milk that is pooled and stays pooled, the more the system works for farmers who want to protect and grow their share of the retail dairy food dollar. Plain and simple, that's why we need a FMMO system that does not allow depooling.

Bloc Voting Should Not be Allowed

A proposal to change something in the Federal Order system triggers what is called a "hearing process". During the process, all parties have an opportunity to state their positions. USDA then takes that information, reviews it, and develops the proposed changes into something that farmers who either would be, or could be, affected by the proposal can vote on.

As the rules now stand, cooperative associations have the legal right to "bloc vote" all their membership regardless of how individual members might feel about the proposal. In other words, cooperative management takes a position on the proposal and then votes on behalf of all member farmers.

Bloc voting raises many troubling issues. First and foremost is that the best interest of an individual farmer and that of the coop management may not be the same. How can a coop that operates processing plants that benefit from lower milk prices

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vote consistently in favor of proposals that would enhance farm milk prices? How can the management of a cooperative made up of smaller family type farms and dairies many times larger vote consistently on proposals that would benefit one group at the expense of the other? It's simply not possible.

In the "old days," several cooperatives competed for farm milk and competed for milk sales. A bloc vote did not have the power it does today--it would require several coops to agree on a position for it to pass a referendum vote. Things are much different in today's markets. With all the consolidation over the past few years, bloc voting in most Orders means the management of one or two of the largest coops can kill or advance proposals for change.

The Federal Orders were never designed to become a tool that a select few cooperatives can use to control farmer access to our Federal Order system, but yet that is exactly what has happened. It's already become difficult for smaller coops in several Federal Orders to pool milk. The sheer size and market dominance of a handful of very large cooperatives in many markets should cause farmers to support the elimination of bloc voting.

Simple justice and democratic principles require that individual farmers decide their own fate. We must allow each farmer to vote for him or herself. We must eliminate bloc voting on USDA marketing referendums and create a democratic system whereby the farmers who are affected by these changes can have a direct say on matters that affect their financial futures.

A Strong Future for America's Dairy Industry

The Federal Milk Marketing Order system has played a vital role in maintaining the health and stability of America's dairy industry since the 1930's. We at National Farmers want the FMMO system to continue in that important role for years to come. Times have changed, however, and the FMMO system must change with it. Our recommendations presented here will guide those changes in ways that insure a strong dairy economy with opportunities for dairies of all sizes.