Wisconsin Farm Bureau Federation | Minnesota Farm Bureau

September 13, 2024

United States Department of Agriculture
Agricultural Marketing Service
Doc. No. AMS-DA-23-0031
1200 Pennsylvania Ave. NW
Washington, DC 20460-0001

RE: Milk in the Northeast and Other Marketing Areas; Proposed Amendments to Marketing Agreements and Orders Doc. No. AMS-DA-23-0031

The Wisconsin Farm Bureau Federation and Minnesota Farm Bureau Federation appreciates the opportunity to comment on the United States Department of Agricultures proposed revisions to Federal Milk Marketing Orders. Wisconsin Farm Bureau and Minnesota Farm Bureau together represent more than 77,000 farmers primarily in Federal Order 30.

The Wisconsin Farm Bureau and Minnesota Farm oppose raising the make allowance.

The dairy supply chain is a complex system where farmers, processors, and consumers are interconnected. One crucial aspect of this chain is the concept of "make allowances." While this system is designed to ensure processors can cover their costs and earn a profit, raising make allowances can have significant repercussions on farmers' bottom lines, often to their detriment.

Raising make allowances can create an imbalance in the agricultural market. This imbalance often favors processors over farmers, leading to an unequal distribution of wealth within the supply chain. Processors, who are typically larger and more financially stable than individual farmers, may be better positioned to influence pricing structures and advocate for higher margins. This dynamic can lead to a situation where the financial health of processors improves at the expense of farmers. Such imbalances can undermine the long-term sustainability of the agricultural sector, as the vitality of the industry heavily depends on the prosperity of its primary producers.

Dairy farmers in Federal Order 30 appear to suffer the greatest negative impacts from this current proposal. As an example, returning to the "higher of" class III and class IV in our pricing formula from the current "average of" may return $0.52/cwt to dairy farmers milk checks, only to be traded for an approximate $0.78 increase in a make allowance for our processors that ultimately comes from dairy farmers milk checks.

USDA is recommending a cheese make allowance increase by 5 cents, the butter make allowance increase by 5.4 cents, the nonfat dry milk make allowance increase by 5.9 cents and the dry whey make allowance increase by 6.6 cents. Had these higher values been in place between 2020 and 2023 they would have reduced class prices by between 74 cents and 89 cents per hundredweight.

These reductions would negatively affect dairy farmers, particularly in regions with high class III and IV utilization, like Federal Order 30.

USDA's reliance on a voluntary survey and processor witnesses is concerning because it doesn't present a full picture of processing costs and resulting make allowance increase to producers. In a voluntary survey, some processors may not choose to participate because of time and labor requirements to collect the necessary data or concerns about providing sensitive business information to researchers. Others may gauge how their participation may change the price formulas and affect their own bottom lines. For instance, large, efficient processors could decline to participate, skewing cost data upward and increasing the deduction to cover processors' cost in the milk price formula, which would skew dairy farmers' milk checks downward.

Other processor witnesses seem to view an increase in the make allowance benefiting farmers. This could not be further from the truth. Wisconsin has experienced some of highest levels of dairy farm bankruptcies over the past eight years and USDA's FMMO recommendations will lead to greater dairy farm consolidation and bankruptcies. This is especially true for Federal Order 30, where dairy producers take the big financial losses of all the orders.

At a time when there are over $8 billion in investments in processing plant expansions happening across the country and too often declining net farm income and farm cash receipts, it is vital that we get dairy farmers a fair FMMO. Without equitable distribution of farm income, we'll continue to lose small dairy farms and see increased consolidation.

Wisconsin Farm Bureau and Minnesota Farm Bureau support the pricing formula change from the "average of" back to the "higher of."

In 2018, Congress passed the farm bill, which included a significant change to the way dairy prices are calculated. The bill shifted the dairy pricing formula from the "higher of" method to the "average of" method. Under the "higher of" formula, dairy farmers were paid based on the higher price between class III (cheese) and class IV (butter and powdered milk) milk prices, which often provided better financial returns to farmers. However, the switch to the "average of" formula meant that prices were based on the average of these two classes, generally resulting in lower payments to farmers. This change was intended to stabilize prices, but since that change almost $1.5 billion has left dairy farmers' milk checks, exacerbating financial pressures in an industry that is highly sensitive to price fluctuations and operational costs.

Wisconsin Farm Bureau and Minnesota Farm Bureau support USDA's recommended class I differentials.

Class I differentials in Federal Milk Marketing Order 30 provide a valuable benefit to upper Midwest dairy farms by ensuring that farmers receive a premium price for milk. These differentials account for regional supply and demand dynamics, transportation costs, and market accessibility, which help ensure that Wisconsin and Minnesota dairy farmers—who produce a significant portion of the nation's milk—are compensated fairly. Wisconsin Farm Bureau and Minnesota Farm Bureau appreciates the efforts of USDA to increase class I differentials as the costs of hauling milk, including higher fuel prices, increased driver wages and other transportation expenses, meaning that current differentials no longer reflect the actual cost of supplying milk to processing plants, leading to inequities in milk pricing.

Wisconsin Farm Bureau and Minnesota Farm Bureau oppose USDA's FMMO recommendations.

It's hard to comprehend but dairy farmers in Federal Order 30 will actually be in a worse position under USDA's FMMO recommendations. If USDA's recommendations had been implemented in 2020 through 2023, dairy farmers in Federal Order 30 would have received lower prices than under the current FMMO system which saw Wisconsin and Minnesota lose thousands of dairy farms.

USDA's FMMO recommendations create disparities among dairy farmers based on their physical location — an outcome that the FMMO system is designed to prevent. While a switch back to the "higher-of" class I base price, elimination of the barrel cheese price, and increases in composition factors and class I differentials are designed to better reflect current market realities and improve overall pricing for farmers, the recommended make allowance increases is so large that it would wipe out these gains, particularly in Federal Order 30 with high class III and IV utilization.