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National Milk Producers Federation

Jim Mulhern – President & CEO
2107 Wilson Blvd., Suite 600
Arlington, VA 22201

International Dairy Foods Association

Michael Dykes – President & CEO
1250 H Street, NW, Suite 900
Washington DC, 20005

Dear President Mulhern & President Dykes,

On behalf of the American dairy farmers, we want to extend our thanks to the National Milk Producers Federation (NMPF) and the International Dairy Foods Association (IDFA) for their willingness to pursue changes to the Class I price mover. This effort is a commendable response to the disastrous effects of negative producer price differentials (PPDs) which based on data from USDA's Agricultural Marketing Service represented a \$2.7 billion shortfall in Federal Milk Marketing Order component pricing revenue sharing pools.

In 2019, the Federal Milk Marketing Order's Class I fluid milk pricing formula applied a \$0.74/cwt differential to the monthly average of the advanced Class III and IV skim prices. This replaced the previous Class I formula, which was calculated based on the higher-of the advanced Class III or IV skim price.

The closing of schools and restaurants early last year, and the subsequent federal response coinciding with the reopening of restaurants across the country, inflated the Class III and cheese prices. While Class III rose significantly, we did not see the same impact on Class IV milk values. Processors with the ability to depool their milk opted out of the order, thus benefiting themselves. Meanwhile, dairy farmers shipping to regulated plants faced significant deductions on their milk checks via PPDs because of processors who opted out of the pool.

This massive volume of depooling decreased dairy processor costs and increased their bottom-lines at the expense of dairy farmers. Additionally, farmers who chose to purchase risk management tools were unexpectedly unable to utilize them and suffered significant losses. Making matters even worse, this pricing formula pitted farmers against one another due to the unfair inequalities between neighboring producers and across different regions of the U.S.

This is an unethical situation where processors got to choose what to pay dairy farmers. Farmers deserve full transparency from their processors and a seat at the table to negotiate pricing and federal orders going forward.

We respectfully ask NMPF and IDFA to allow us a seat at the table for a more balanced voice of dairy farmers. As we move together to find a solution and fix the current pricing formula, it is critical that outcomes are fair and equitable to farmers from all regions of the U.S.

Currently, we are working on solutions that will result in a more impartial and even-handed pricing

strategy — one that will address the unfair advantage processors are given over dairy farmers through the depooling process. We are not opposed to processors making a profit and protecting their risks— except when there are loopholes that have such a devastating impact on farmers through massive milk check deductions, while simultaneously removing our risk management tools.

We believe a dangerous precedent has been set, and we have concerns with circumventing the Federal Milk Marketing Order hearing process by way of legislation. The current legislative approach lacks transparency for individual farmers and leaves this seemingly secretive milk pricing decision-making in the hands of legislators and a small number of representative voices. Furthermore, the decisions affecting milk pricing should be made by those most impacted by the outcome of the decision-making process, and not by those who stand to benefit from loopholes.

We believe an expedited FMMO hearing should be requested immediately, along with an immediate solution to address the negative PPDs that are being passed onto farmers. The FMMO hearing process allows inclusive participation where all farmers can bring their ideas forward and be heard on the record.

We look forward to working with NMPF and IDFA and other industry stakeholders to immediately address these inequalities that are simply unacceptable for dairy farmers across the U.S.

It is time for transparency, honesty and collaboration across our entire industry to fix this.

Sincerely,