The American Dairy Coalition and the dairy producers we represent across the nation would like to stress to you the widespread concern occurring over a milk pricing change that was made without a transparent vetting process in the 2018 Farm Bill. The new Federal Milk Marketing Order price calculation for Class I fluid milk was implemented in May 2019 to use an 'averaging' method instead of the 'higher of' Class III (cheese) or Class IV (butter/powder). According to the language in the Farm Bill legislation indicates this can be amended after April 1, 2021 (page 30) https://www.congress.gov/115/plaws/publ334/PLAW-115publ334.pdf)

Over the first two years of implementation, May 2019-March 2021, the results have been disastrous for dairy farmers. The Class I price that has been paid as part of a blend price to farmers suffered a net loss of $744 million, based on this formula change alone. This is a collective net figure nationwide. Total net loss to farmers exceeds $3 billion due to Class I and the blend price being below Class III -- creating negative producer price differentials (PPDs). PPDs were further negatively impacted when over 70 billion pounds of milk was depooled in July 2019 in the Pacific and California orders, then moving towards the Midwest and East in 2020 and continuing into 2021. Depooling leaves even less money to pay farmers the full protein and component value of their milk.

Recently, dairy producers from across the U.S., along with many state dairy associations and the American Dairy Coalition, came together to compose a letter to the National Milk Producers Federation (NMPF) and International Dairy Foods Association (IDFA) asking to work collaboratively on a solution. The letter was signed by over 400 dairy producers and multiple organizations and can be viewed here: https://files.constantcontact.com/a653daa8501/01537e50-5874-4971-82e7-00e377fe66e6.pdf

ADC requests legislative assistance to go back to the previous vetted Class I skim pricing method of using the 'higher of' Class III or IV as an immediate temporary way to stop the bleeding until a vetted and viable long-term solution can be reached that is fair to all market participants, including dairy producers.

**Key points:**

- The new Class I pricing method was included in the 2018 Farm Bill at the request of National Milk Producers Federation and International Dairy Foods Association. **Dairy producers were not at the table**, and most were unaware of the change.

- This change was made legislative, **without the vetting and transparency** of the Federal Order hearing process, comment periods, and producer vote.

- The last time major pricing changes were made was the 1996 Farm Bill. Four years of hearings, comment, and a producer vote followed before implementation in 2000. After hearing all sides at that time, USDA Agriculture Marketing Services Dairy Division described in a lengthy decision **why an averaging method would not work to fulfill the purpose of the Federal Orders**, which is to move milk to Class I use to assure the public of an adequate supply of fresh fluid milk and have orderly marketing. The 'higher of'

decision in 2000 cited the same situation in 1995-98 that we now see occurring in 2019-21 -- severe negative differentials and massive depooling.

- Only Class I fluid milk handlers are required to participate in Federal Order pools. Class III and IV do so voluntarily to share in the higher Class I differential revenue. Since pooling of Class III milk is voluntary, handlers depooled milk when Class III was higher in some months of 2019, much of 2020, and could continue in 2021.

- The unvetted pricing change was made so fluid milk buyers could more easily manage their risk through forward-contracting and hedging on the futures markets, but we ask, where is the evidence that this has increased?

- Meanwhile, the change has disrupted orderly marketing, undermined the purpose of Federal Orders, created real net losses for producers not based on 'the market', and has **interfered with the ability of producers to manage their risk.** The risk management tools currently available to farmers were not designed for the conditions influenced by the new formula. In many cases, producers saw the change not only devalue their milk, but also the risk management they purchased failed because it was aligned with a 'market value' they did not receive.

- **Even the performance of the Dairy Margin Coverage safety net has been undermined** by the spread between high and low milk prices becoming as large as $8 to $10 between regions and neighbors in months when the differential was most negative. In some cases, processors passed the component value of depooled milk on to their farmers, but in many cases, they did not. The all-milk price used in the DMC safety net is a national average. USDA has noted that value 'in the market' is considered when calculating the 'all-milk price' for the DMC, even if that value has not been reflected in producer milk checks.

USDA Federal Order administrative law hearings take one to two years to complete, but dairy producers need a faster response to the ongoing situation. Please help us stop the bleeding by reverting to the prior vetted 'higher of' as the basis for the Class I pricing formula used for the past 20 years until the industry chart a course for the future that hears all sides and vets the proposals. Because this change was made legislatively without the transparency of a hearing process, we believe it should be reversed immediately without a lengthy hearing process to go back to the vetted formula while we stand ready to work together with all parties for a vetted and viable long-term Class I pricing solution.

Thank you for your consideration of this request,

Laurie Fischer- CEO, American Dairy Coalition