

**Restore the original Federal Order Reform Class I skim milk price mover to the “higher of”
Supporting the NMPF Proposal # 13**

Hello. My name is Jennifer Lawrence and I, along with my husband, Tom and our daughter Carolyn operate Tol Je So Farm L.L.C. in Nottingham, Pennsylvania which is in southern Lancaster County. Currently, we rent the house, barns and pasture on the farm. We milk about 100 cows and raise about 80 replacement heifers. We purchase all the feed for our operation from the owner of the farm. Our farm markets its milk through Maryland & Virginia Milk Producers Cooperative, Association, Inc. In addition to farming, I currently serve on our cooperative’s board of directors and have since 2020.

I am a first-generation dairy farmer while my husband Tom is a third-generation dairy farmer. When his family sold their farm in 1987, Tom left with 5 heifers and he and I began our dairy journey together by renting a farm with 35 cows in Pomfret Center, CT. There, we built the herd up to 70 mature milking cows. In 1996 we sold half of our milking herd and left New England with the remaining half of our herd to join another herd in Port Deposit, Maryland where we farmed for the next ten years. In 2006 we moved our herd and our family to our current facility where we farm today.

I am here today to testify in support of the National Milk Producers Federation proposal to restore the original Federal Order Reform Class I skim milk price mover formula to use the “higher of” the most currently calculated advanced Class III or Class IV skim milk price. As was the case in 2000, milk used for manufacturing is separated into two categories, with Class III being primarily cheese and Class IV being primarily butter and nonfat dry milk. Using the “higher of” in the Class I skim milk price formula would help to assure that shifts in demand for

any one of the products of the two classes would not lower the Class I value. Consequently, this would also help to reduce volatility in milk prices from month to month bringing more stability and predictability to farmer income. This would also likely reduce instances of uniform statistical price calculations resulting in negative PPD's.

The previous methodology seemed to work well in the first seventeen years since Federal Order Reform. However, some processors and sellers of dairy products that use risk management strategies raised some concern with this methodology because they do not have the ability to predict which of the two manufacturing classes would be the higher of. This added a secondary layer of inherent risk to them. In an attempted compromise, the Agriculture Improvement Act of 2018, implemented in the 2019 Final Rule changed the Class I mover to the current language, which uses the average of the Class III and Class IV prices plus a fixed differential of \$.74 per hundredweight. The \$0.74 differential represents the average value that the higher of Class III and IV contributed to the Class I mover, relative to the average of Class III and IV, from January 2000 through August 2017. The intent of this change was to ensure revenue neutrality to dairy farmers while removing an additional risk factor from processors and sellers of dairy products that use risk management strategies.

However, this change in the Class I mover formula since it became effective in May 2019 has created significant market losses in pooled Class I skim milk values in all orders. Those losses are estimated to have been more than \$900 million through January 2023. These losses are more than likely magnified because of unprecedented and unforeseeable volatility in the marketplace that occurred which were related to the COVID-19 pandemic and continued recovery from it. In the second half of 2020 the Farmers to Families Food Box Program created

significant demand for cheese causing a rapid run-up of Class III prices while Class IV prices did not follow. In 2022, the opposite occurred while Class IV prices remained relatively strong, Class III prices saw modest decreases. At times, these inversions have created record negative producer price differential also known as PPDs. Those inversions are likely to continue in the future and will continue to have detrimental effect on producer prices if things don't change. Farmers, whose job it is to feed the world, especially in times of need, have been effectively punished by the unintended consequences of a miscalculated policy decision.

I would be remiss if I didn't take advantage of this unique opportunity to appear before the USDA today to express my sincere appreciation and gratitude to Secretary Vilsack for his support and Congress for their passage of the Pandemic Market Volatility Assistance Program, hereafter referred to as PMVAP. The PMVAP program ultimately distributed nearly \$350 million dollars to dairy farmers to help at least partially offset the losses incurred by dairy farmers between July and December 2020. While those dollars seem significant, and they are, they are just a fraction of the revenue that dairy farmers lost during that same period due to the Class I mover formula change in 2019.

Please allow me to remind you where I am from. I live in Lancaster County Pennsylvania, home of the largest concentration of Amish communities in the world. Many of my dairy farmer neighbors and constituents of my cooperative are of plain sect, are extremely conservative and are deeply rooted in their religious convictions. Despite my many efforts to encourage their participation in the PMVAP program by explaining that it was designed and intended to assist dairy farmers who received a lower value of milk due to market abnormalities caused by the pandemic and ensuing Federal policies, most would absolutely refuse to

participate. No matter how the program was dressed up, the program was still considered a government hand-out even though the dollars were distributed by their handler cooperative. They clearly understood that the funds were derived from taxpayers and not the marketplace. Today, I will stand beside those same conservative farmers as well as the National Milk Producers Federation to support their stance that the Class I mover formula needs to be restored to what it was with Federal Order Reform in 2000. Using the “higher of” the most currently calculated advanced Class III or Class IV skim milk price in the Class I mover formula will ensure the dollars will come from the marketplace as originally intended. Thank you.