



Via U.S. Mail and Email to
FMMOhearing@usda.gov

June 20, 2023

Ms. Dana H. Coale
USDA/AMS/Dairy Programs
U.S. Department of Agriculture
STOP-0225 Room 2530
1400 Independence Avenue, S.W.
Washington, D.C. 20250-0225

Re: Modified Petition of the International Dairy Foods Association for a Hearing to Amend the Class I Mover in All Federal Milk Marketing Orders: IDFA's Proposed "Floored Class I Mover," Proposed as an Alternative to National Milk Producers Federation Proposal 3

Dear Deputy Administrator Coale:

By letter dated May 1, 2023, the National Milk Producers Federation ("NMPF") petitioned USDA to conduct a hearing to consider several NMPF proposals to amend the current Federal Milk Marketing Orders. NMPF proposal 3 proposes that the Class I mover, which is currently set at the simple average of the Class III and Class IV advanced price plus \$0.74, revert to the Class I mover that existed prior to May 1, 2019, namely, the higher of the Class III or Class IV advanced price. In this letter, we refer to the NMPF proposal as the "higher of Class I mover."

By notice dated June 1, 2023, USDA indicated an intention to consider holding hearings on NMPF proposal 3 as well as other specified proposals and invited interested parties to submit any alternative proposals by June 14, 2023. By letter dated June 14, 2023, the International Dairy Foods Association ("IDFA") indicated that it had carefully examined NMPF proposal 3, and concluded that NMPF Proposal 3 is flawed because it precludes meaningful access to risk management tools and therefore fails to foster the purposes that lead to the Class I mover being changed to its present language on May 1, 2019. This is because a Class I mover that shifts unpredictably between the Class III and Class IV advanced prices is too unpredictable to allow for the hedging that is essential to modern pricing and sale of Class I products.

IDFA indicated that it had identified, and was submitting, an alternative approach that will both foster those purposes *and* address the concerns that underlie the NMPF proposal. This IDFA alternative proposal incorporates the core concept of the NMPF "higher of" proposal but adjusts it in a manner that: (a) preserves the purposes that led to the Class I mover being changed to its present language on May 1, 2019, (b) encourages increased sales of Class I products, which have been in steady decline for many years, and (c) is guaranteed to put more dollars into the pockets of dairy

farmers than either the current Class I mover or NMPF proposal 3. We refer to the IDFA alternative proposal as the “Floored Class I Mover.”

USDA during the June 16, 2023 Pre-Hearing Information Session raised certain points of clarification regarding the mechanism by which the IDFA proposal would operate. Consistent with the schedule set by the Secretary, IDFA by this letter is modifying its Class I mover proposal so that the amendatory language will provide greater clarity as to exactly how the Floored Class I Mover would operate. IDFA also now provides more detailed explanations and examples of how the Floored Class I Mover would operate, using specific data. IDFA’s proposed Floored Class I Mover remains substantively unchanged from that set forth in its June 14, 2023 proposal, and accordingly, IDFA’s June 14, 2023 letter’s extended discussion of the benefits of the IDFA Floored Class I Mover remains valid.

IDFA’s modified proposal is as follows (inclusive of all proposed revisions):

Amend 7 C.F.R. § 1000.50(b) to provide as follows: (no deletions; additions appear in red font):

§ 1000.50(b) *Class I skim milk price.* The Class I skim milk price per hundredweight shall be the adjusted Class I differential specified in § 1000.52, plus the adjustment to Class I prices specified in §§ 1005.51(b), 1006.51(b) and 1007.51(b) of this chapter, plus the simple average of the advanced pricing factors computed in paragraph (q)(1) and (2) of this section rounded to the nearest cent, plus **the higher of: (a) \$0.74 per hundredweight or (b) the result reached in sub-paragraph (iii) of the following calculations:**

(i) for each month in the twenty-four-month period through July of the previous calendar year, select the higher of the advanced pricing factor computed in paragraph (q)(1) versus paragraph (q)(2), and determine the simple average of the twenty-four factors so selected, rounded to the nearest cent;

(ii) for each month in the twenty-four-month period through July of the previous calendar year, calculate the simple average of the advanced pricing factors computed in paragraph (q)(1) and (2) of this section rounded to the nearest cent, and determine the simple average of the twenty-four factors so selected, rounded to the nearest cent; and

(iii) calculate the difference between the amount determined in (i) and the amount determined in (ii).

DISCUSSION

We now explain further how the IDFA Floored Class I Mover would work, using January 2023 as our first example. Like the current Class I mover, the Floored Class I Mover would begin by calculating the average of the Class III and Class IV advance prices for January 2023. And there would be an adder on top of that. The adder would be either \$0.74, or a potentially higher adder.

The potentially higher adder is based on the following calculations, using data from the 24-month period from August 2020 through July 2022. For each of those 24 months, (1) one first selects the higher of the Class III or IV advanced prices, and then calculates the simply average of the 24 prices so selected. One then (2) calculates for each of those 24 months the average of the Class III and IV

advanced prices, and then the simple average of the 24 averages. One then determines the difference between (1) and (2). If that difference is greater than \$0.74, then that difference is the adder used, instead of \$0.74.

Actual examples for the calculations for the 2021 calendar year Floored Class I Mover and the 2023 calendar year Floored Class I Mover follow below. These two examples outline how the calculations work when the higher-of difference is both greater than, and below, the \$0.74 minimum established under this proposal.

In Chart 1 on the following page Columns A and B are the actual Class III and Class IV advanced prices over the 24-month period from August 2020 through July 2022. Column C is whichever of those two advanced prices is higher each month, with the simple average of those prices set forth in the last row. Column D is the average of the Class III and Class IV advanced prices by month, and the simple average of those prices appears in the last row.

The simple average in Column C is \$12.90, while the simple average in Column D is \$11.38. The difference is \$1.52. Because \$1.52 is greater than \$0.74, the adder to the Class I mover for January-December 2023 will be \$1.52.

This math takes a few steps, but the result can be stated simply: dairy farmers are, through the use of this higher adder, being “made whole” over time for the extra amounts they would have received had the Class I mover been based upon the “higher of” the Class III or Class IV advanced price.

Furthermore, dairy farmers end up better off over time because there is no “give back” for those years in which the Class I price would have been lower if based upon the “higher of” the Class III or Class IV advanced price rather than the average of the Class III and Class IV advanced prices plus \$0.74. We use calendar year 2021 as an example.

Chart 2 (page 6) shows the Floored Class I Mover adjuster calculation for calendar year 2021. The Class I mover for 2021 is determined by the time period August 2018 through July 2020. In Chart 2 below, Columns A and B below are the actual Class III and Class IV advanced prices over the 24-month period from August 2018 through July 2020. Once again, Column C is whichever of those two advanced prices is higher each month, with the simple average of those prices set forth in the last row. Column D is the average of the Class III and Class IV advanced prices by month, and the simple average of those prices appears in the last row.

The difference between Column C and Column D is \$0.70. Because \$0.74 is higher than \$0.70, the Floored Class I mover in all months in calendar year 2021 would be the average of the Class III and Class IV advanced prices plus \$0.74. Dairy farmers would not be required to “give back” the extra \$0.04.

In short, over time, dairy farmers will always be paid at least as much as they would have earned under the NMPF “higher of the Class III or Class IV advanced price” proposal. But in years in which they would receive more money if the Class I mover were based on the average of the Class III and Class IV advanced prices plus \$0.74, that is what they will be paid.

For this reason, IDFA's Floored Class I Mover results in a higher average price over time than either the current Class I mover or NMPF proposal 3.

Respectfully Submitted,

A handwritten signature in black ink that reads "Michael L. Brown". The signature is fluid and cursive, with the first name "Michael" being the most prominent.

Mike Brown
Chief Economist
International Dairy Foods Association
1250 H Street NW, Suite 900
Washington, DC 20005
202-737-4332

cc: Bruce Summers, Administrator, Agricultural Marketing Service, USDA
Erin Taylor, Director, Order Formulation and Enforcement Division, USDA/AMS/Dairy

CHART 1

IDFA Proposal Example: 2023 Mover Adjuster Effective January - December 2023

<u>Base Period for 2023</u>	<u>Column A</u> Class III Advanced Skim Price	<u>Column B</u> Class IV Advanced Skim Price	<u>Column C</u> Higher of Class III or Class IV Advanced Skim Price	<u>Column D</u> Simple Avg. of Class III and Class IV Advanced Skim Prices
August-2018	\$18.08	\$7.12	\$18.08	\$12.60
September-2018	17.43	7.13	17.43	12.28
October-2018	11.01	7.45	11.01	9.23
November-2018	16.07	8.00	16.07	12.04
December-2018	20.07	8.21	20.07	14.14
January-2019	10.25	8.33	10.25	9.29
February-2019	10.68	8.57	10.68	9.63
March-2019	11.10	8.66	11.10	9.88
April-2019	10.19	8.33	10.19	9.26
May-2019	10.75	8.88	10.75	9.82
June-2019	12.73	9.42	12.73	11.08
July-2019	10.59	9.83	10.59	10.21
August-2019	10.04	9.67	10.04	9.86
September-2019	9.68	9.75	9.75	9.72
October-2019	9.90	9.93	9.93	9.92
November-2019	11.45	10.53	11.45	10.99
December-2019	11.40	11.52	11.52	11.46
January-2020	10.73	12.21	12.21	11.47
February-2020	10.43	12.97	12.97	11.70
March-2020	10.59	13.71	13.71	12.15
April-2020	11.97	14.51	14.51	13.24
May-2020	13.68	14.82	14.82	14.25
June-2020	15.04	14.80	15.04	14.92
July-2020	13.07	14.72	14.72	13.90
24 Month Average (Rounded to two Decimals)	\$12.37	\$10.38	\$12.90	\$11.38

Difference Between the 24 Mo. Average Higher-of III-IV and the 50:50 III-IV:

	Higher-Of \$12.90	- Simple Average - \$11.38	= Difference \$1.52
2023 Class I Skim Mover Adjuster = Greater of:	Minimum Base	-or-	Higher of vs. Average of
2023 Class I Skim Mover Adjuster = Greater of:	\$0.74	-or-	\$1.52
Class I Skim Mover Adjuster for 2023 = 50:50 Advance III:IV Skim plus			\$1.52

CHART 2

IDFA Proposal Example: 2023 Mover Adjuster Effective January - December 2023

<u>Base Period for 2023</u>	<u>Column A</u> Class III Advanced Skim Price	<u>Column B</u> Class IV Advanced Skim Price	<u>Column C</u> Higher of Class III or Class IV Advanced Skim Price	<u>Column D</u> Simple Avg. of Class III and Class IV Advanced Skim Prices
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April-2019	10.19	8.33	10.19	9.26
May-2019	10.75	8.88	10.75	9.82
June-2019	12.73	9.42	12.73	11.08
July-2019	10.59	9.83	10.59	10.21
August-2019	10.04	9.67	10.04	9.86
September-2019	9.68	9.75	9.75	9.72
October-2019	9.90	9.93	9.93	9.92
November-2019	11.45	10.53	11.45	10.99
December-2019	11.40	11.52	11.52	11.46
January-2020	10.73	12.21	12.21	11.47
February-2020	10.43	12.97	12.97	11.70
March-2020	10.59	13.71	13.71	12.15
April-2020	11.97	14.51	14.51	13.24
May-2020	13.68	14.82	14.82	14.25
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July-2020	13.07	14.72	14.72	13.90
24 Month Average <i>(Rounded to two Decimals)</i>	\$12.37	\$10.38	\$12.90	\$11.38

Difference Between the 24 Mo. Average Higher-of III-IV and the 50:50 III-IV:

	Higher-Of \$12.90	- Simple Average - \$11.38	= Difference \$1.52
2023 Class I Skim Mover Adjuster = Greater of:	Minimum Base	-or-	Higher of vs. Average of
2023 Class I Skim Mover Adjuster = Greater of:	\$0.74	-or-	\$1.52
Class I Skim Mover Adjuster for 2023 = 50:50 Advance III:IV Skim plus			\$1.52