# A FAIR PRICE FOR MILK?

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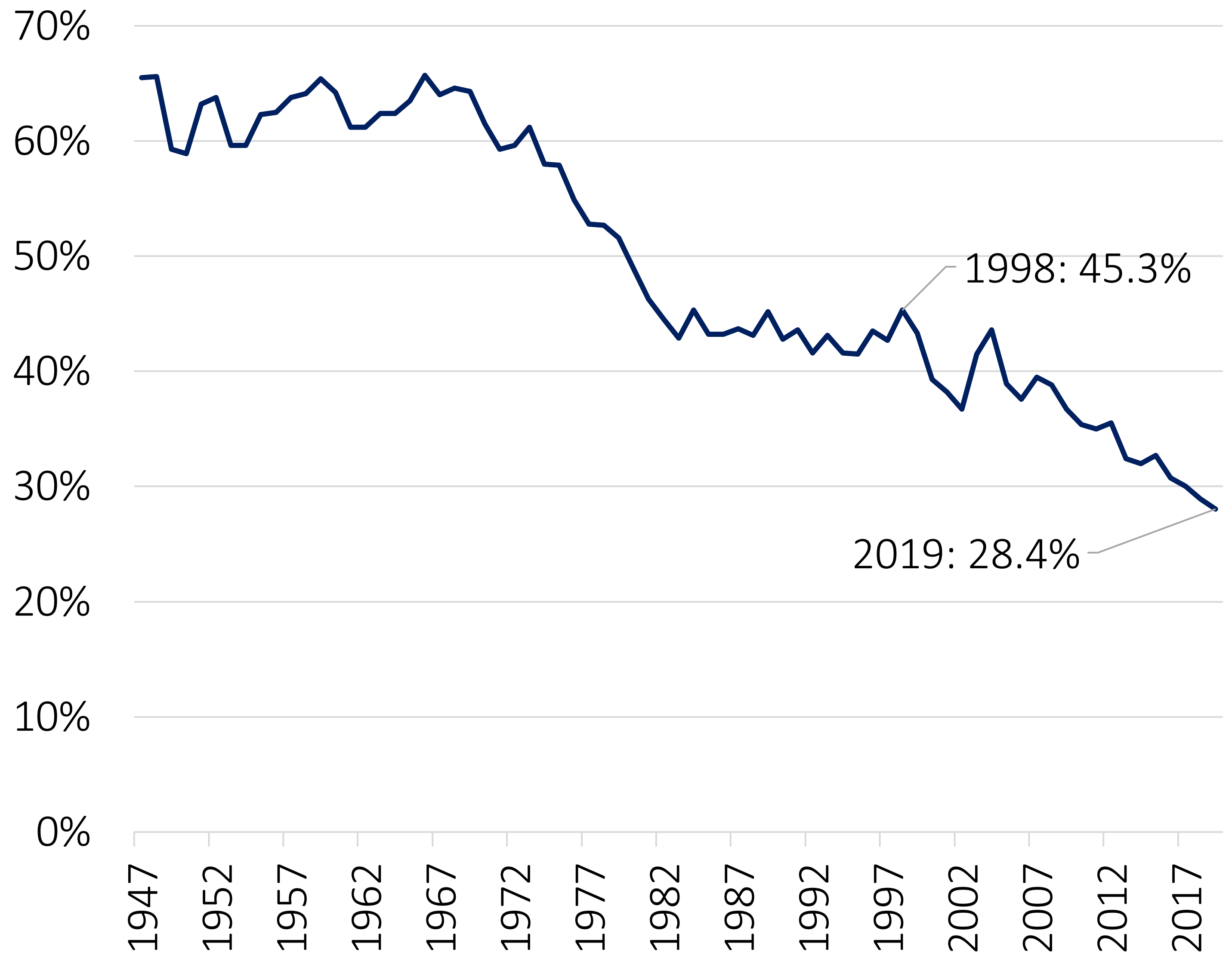
# FMMO Class I (Beverage Milk) Utilization Rate Over Decades




When the last major FMMO reform was designed, in late 1990s, over 45% of pooled milk was used in Class I.

Today, less than 30% is Class I.

It’s not enough.

# How FMMOs were intended to work

**<u>Class I</u>**
**Must Participate**

**<u>Class II</u>**
**Can Participate**

**<u>Class III</u>**
**Can Participate**

**<u>Class IV</u>**
**Can Participate**

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# Why FMMOs no longer equalize milk prices among producers


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**Class II**
Can
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**Class III**
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**Class IV**
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# Premises

1. A fair price of milk will reflect the value of product created
2. Producers have comparative advantage in bearing price risk (DRP, LGM, DMC, ad hoc support)
3. Path dependence matters – we are not starting from scratch
4. Market power (still) matters, milk is (still) perishable
5. Where competition for milk is lacking, policy rules should try to mimic the effects of intense competition

EDGE DAIRY FARMER COOPERATIVE

# MILK PRICING

## REFORM PRIORITIES

# CONTRACTING

# BASIC CONTRACTUAL EXPECTATIONS:

- Written contracts: All milk supply agreements in writing.
- Timely Payments: Farmers paid every two weeks, with no more than three weeks lag. Advance checks paid in accordance with what is known about current month's prices.
- Verification of weights, test and samples: Unless a farmer opts out, third-party, certified organizations utilized to verify milk weights, component tests and samples. Verification organizations allowed to provide other services to farmers.
- Contract termination notice: Unless extraordinary circumstance, processors give reasonable amount of time as notice before contracts can be terminated.

# COMPETITION:

- Transparent pricing formulas: Milk composition and quality incentive formulas (such as SCC, protein and volume premiums) clearly spelled out in the milk supply agreements, and sufficient notice given before incentive formulas change. Processors allowed to set pricing formulas to successfully compete in domestic and overseas markets.
- Competitive risk management: Farmers able to manage price risk using combination of processor-specific basis contracts and private or government-supported risk management instruments.
- Exclusivity and volume limits: Processors should not impose exclusivity if imposing volume limits or two-tier pricing.

# EQUITY:

- Good faith principle: Processors and farmers must act in good faith, and disputes addressed through arbitration process with meaningful penalties for unfair behavior.
- Equal opportunity to all farmers: No special deals allowed. Any incentive offered to one patron must be offered to all current patrons meeting same criteria set by processor, including but not limited to differences for farm location, size and quality.
- Equal treatment of processors: These terms should apply to all milk buyers in the United States, irrespective of their ownership structure or participation in FMMOs.

# BUILDING REGIONAL FLEXIBILITY

# UNIFORM BENEFITS:

- Uniform price at the single handler level: Pay all patrons based on the handler's product mix. Cheese manufacturer's uniform price would be Class III price. NFDM manufacturer would have to pay based on Class IV price (NFS solids).
- Pooling *Net* Class I Differentials: Revenue neutral for Class I handlers vs. the current system, *for example*, averaged over 36 months.
- Uniform Benefits - Pool Protein Premium: Pooled Net Class I Differentials are paid to pooled producers as protein premiums. Stable and always positive, replaces Producer Price Differential.
- Predicatability and fairness: Class I would always be net payer to the pool. Class II, III and IV would always have positive draw. Producer milk checks would be more predictable, and risk management would be more effective.