

**Written Statement of Mr. Mike Ferguson, Owner**

**Ferguson Dairy Farm**

**Tate County, Mississippi**

**To the Committee on Agriculture, Nutrition, and Forestry Subcommittee on Livestock,  
Dairy, Poultry, Local Food Systems, and Food Safety and Security of the  
United States Senate**

**“Milk Pricing: Areas for Improvement and Reform”**

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Chair Gillibrand, Ranking Member Hyde-Smith, and members of the subcommittee, thank you for the opportunity to testify before you today. My name is Mike Ferguson and I have operated a Holstein milking herd of 150 head in eastern Tate County, Mississippi for 45 years.

As a dairy farmer, I have served the industry in a variety of capacities. I am a Board Member of a variety of organizations that seek to support all producers, including the Southeast Dairy Farmers Association and the Dairy Cooperative Marketing Association. I have been a member of the Mississippi Farm Bureau Federation since 1985 and have served as President of the Tate County Farm Bureau for the last 15 years. Notably for purposes of today's hearing, I have chaired the Mississippi Farm Bureau's Dairy Advisory Committee for the last eight years.

The dairy industry in Mississippi currently consists of about 60 family farms. We are considered a milk deficit state, where we don't produce as much milk as our state consumes, so milk must come to us from other states. That has not always been the case, though. Although right now dairy isn't the state's top agricultural commodity, it's vital to the state's economy and food security net. Each of our approximately 7,000 dairy cows provide an average of 1,831 gallons of milk per year. These cows live on multi-generational family farms with an average of about 125 lactating cows per herd.

Mississippi is steadily and rapidly losing dairy farms. Over the past five years of extremely low milk prices, producers have struggled to put food on their own families' tables while providing it for the rest of us. We have lost approximately 28 dairies over this time, from 86 in 2016 to 60 now, a 30% decrease. These farms employ milking staff, nutritionists, veterinarians, and more. They support local businesses as well as state and national enterprises. Many of our 60 family farms in the state will not be here in a few years if things don't change for them. But those who are still here are part of our backbone and build their lives on hard work, integrity, and selflessness. Without them, negative changes will be felt from a local to a national level.

Dairy farmers are resilient though, and we get up every day to produce a valued product for the consumer. I would like to focus my testimony today on areas of improvement that Congress could review to make an impact to reverse this continued trend of the loss of dairy farms in the Southeast.

### **Considerations for Adjustments to the Class 1 Mover:**

Most of our milk in the Southeast is considered for the Class I market. Class I milk is product generated for the fluid milk market. Cheese is the primary driver of Class III milking pricing, while Class IV pricing is driven by the price of nonfat dry milk powder. Butter is used to price the butterfat in each Class price of milk.

In recent years the use of risk management tools such as futures and options contracts or forward contracts have steadily increased. The Chicago Mercantile Exchange offers futures contracts for Class III and Class IV milk, but has never offered a contract for Class I. One reason was the basis risk associated with the previous milk pricing formula and the switching nature of the higher-of. The Dairy Forward Pricing Program allows farmers to voluntarily enter into forward price contracts with handlers for pooled milk used for Class II, III, or IV purposes under the Federal

Milk Marketing Orders. This program does not allow for the voluntary forward pricing of milk used to producer Class I milk products.

In order to accommodate industry requests to manage Class I milk price risk, Dairy industry organizations reached a compromise solution that would modify the Class I milk pricing formula in the farm bill. This compromise was in lieu of allowing voluntary forward contracting of Class I milk between a farmer and beverage milk processors or consumers under the Dairy Forward Pricing Program.

Congress subsequently modified how Class I milk prices were calculated in the last farm bill to dairy farmers. Under these new provisions, Class I milk is calculated based off the average of advanced Class III and Class IV prices, plus an adjusting factor, which defines the Class I Mover. Previously, Class I milk was priced based on the higher of Class III or Class IV, considered the “higher of” method.

During the initial onset of the COVID-19 pandemic, the traditional pricing mechanisms of Class I milk were skewed tremendously due to the unprecedented purchases of cheese by the federal government that sent Class III prices significantly higher than Class I and created a vast disparity in the true value of Class I milk.

While dairy farmers were no doubt grateful for the needed relief through the purchase of cheese products during the pandemic, the way it was done had significant unintended consequences that no one could have seen coming. While dairy farmers are eager to do everything possible to help people consume our products, it should have been done in a balanced way to minimize price disruptions.

Again, dairy purchases focused so heavily on cheese that Class III milk prices skyrocketed, which while beneficial for some producers, caused many others including me as a Class I producer a great deal of pain as traditional marketing conditions were upended. According to the American Farm Bureau, around the country the revenue shortfall due to the Class I milk price change was in excess of \$740 million dollars compared to the former ‘higher of’ method of calculating the Class I mover. Across the three Southeastern federal orders, where I farm, the economic impact was more than \$150 million in foregone revenue on the milk we pooled on the federal order.

So while Class III prices rose and that milk was in turn de-pooled in many cases, our producers whose Class I milk must always remain in the pool saw a lower blend price. Class I milk must always remain pooled, helping all producers get the benefit of its higher price in the blend price much of the time, but with traditional relationships upended, many farmers suffered last year.

As you know, milk pricing issues are challenging and complex across regional lines. It’s important that we reform the Class I mover to make sure last year’s conditions aren’t repeated.

Options for reform include but are not limited to:

- Congress should consider immediately going back to the ‘higher-of’ until the dairy industry can proceed to a national rulemaking process through USDA’s Dairy Programs to consider

alternative Class I milk pricing rules. Under this more transparent process, stakeholders can provide evidence and testimony in support of or in opposition to proposed changes in milk pricing and pooling rules. While this may upend existing risk management efforts, a formal rulemaking process would ensure input can be received and reviewed by all stakeholders.

- A more frequent and thorough review of the national adjusting factor in the Class I mover calculation. The industry could consider this option and others through the transparent rulemaking process to better protect Class I producers like myself.
- A more frequent and thorough review of the national adjusting factor in the Class I mover calculation. Congress could advance that option to better protect Class I producers like myself.

### **Multiple Component Pricing for Federal Orders 5, 6, & 7:**

In recent years, milk proteins have become a major value-added product in both domestic and international markets, driving the price of milk to record highs. However, across portions of the U.S., the milk pricing regulations are not designed to price all of the milk components that give milk its functional and economic value - specifically butterfat, protein, other solids and even somatic cell count.

Currently, the milk production areas of the country are divided into 11 federal marketing order regions. The Southeastern Regions, or orders 5, 6 and 7, include the Southeast, Appalachian and Florida orders and covers the geographic region from Louisiana, Arkansas and southern Missouri east, and portions of Kentucky and Virginia south. In these areas, as well as in Arizona, milk is not priced based on all the components in the milk – rather milk is priced on skim and fat alone, ignoring the value added of protein in the milk.

In the Southeast, the rising value of milk proteins combined with the region's alternative milk pricing scheme is believed to have contributed to challenges related to milk procurement. For example, the seasonally-deficit Southeastern milkshed is adjacent to marketing areas the price milk based on components. Thus, high component milk often moves out of the deficit southeast to manufacturing areas where higher prices are paid for the components in the milk. Lower component milk is then shipped into the order to fluid milk plants where the components are not fully priced. The milk trucks literally pass each other on the highway moving milk out of and into the orders. This is a disorderly movement of milk.

In light of these realities there has been a renewed interest in the southeast U.S. to consider abandoning the existing milk pricing system (skim fat) in favor of adopting multiple component pricing. Multiple component pricing is a very equitable idea. It's based on the concept that the regulated price of milk received at the farm level should reflect the functional and economic value of the milk.

Simplifying the terms of trade among milk buyers and sellers by placing value on the unique product attributes of a dairy farmer's milk helps to drive milk to its highest value and best use. This

could facilitate more orderly marketing conditions and would create economic incentives for farmers to increase component productivity.

It is likely that milk proteins will continue to be a major nutritional and economic value-added dairy product in both domestic and international markets. Implementing a more uniform pricing scheme across large portions of the U.S. will help to improve component productivity and drive milk to its highest valued and best use.

Importantly, for farms like mine in the Southeast, component pricing could improve the price for the milk we receive and it could facilitate innovation and investment in the Southeastern dairy industry.

This too can be addressed through a rule making process, but I urge the subcommittee to carefully consider this issue in your conversations.

In closing, thank you for the opportunity to testify before you today. I look forward to working with you to reform milk pricing for the betterment of all producers and I stand ready to answer any questions that you may have.