



Milk Pricing Reform Priorities

Summary

In its priorities for national milk pricing reform, Edge Dairy Farmer Cooperative is focused on strengthening the relationship between farmers and processors in a way that increases transparency, fairness and competition, and gives farmers a reasonable amount of price certainty.

The cooperative's focus is on two principles — flexibility and fairness. These priorities were developed through research, member discussions, participation in a multi-state task force, and engagement with processors and other stakeholders.

Priorities

A more flexible system: Given the wide differences in product mixes across the country, more regional flexibility in the Federal Milk Marketing Orders would benefit everyone. Edge's proposal would give each order the authority to operate its milkshed in a way that is sensible for that order. A targeted change in federal law would be necessary, but would not make any immediate changes. A region could decide to pursue those further changes.

- Account for geographic differences in population, farmer base and product mix.
- Avoid unintended consequences of current uniform price rules, such as frequent switching of pooling status, negative producer price differentials and declining share of total area milk production pooled on the order.
- Each individual order could adopt changes suited to ensure its viability. An example of one such change in Federal Order 30 in the Upper Midwest could be adopting a "uniform benefits" model instead of the current "uniform price" model.
- Changes would be made through collaboration of farmers and processors and then formalized in an inclusive USDA hearing after enabling legislation is passed.

Fairness in business: A standard set of "contracting principles" would make the pricing system more fair and equitable and strengthen trust between farmers and processors.

- Certain FMMO requirements, such as regular payment and verification, do not currently apply to depooled milk and would no longer be mandated if the orders were disbanded. The contracting principles would be effective independent of the orders.
- Contracts and supply arrangements constructed in a way that helps processors compete and innovate and strengthens trust between dairy farmers and processors.



- Dairy processors invited to continue working with Edge and its farmers to create collaborative policy proposal
- Edge recommends 10 contracting principles that fall into three categories:
 - **Basic contractual expectations:** Some of today's business transactions between farmers and processors are loosely arranged. Edge is proposing basic contractual expectations that would create structure and certainty.
 - 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: Third-party, certified organizations will be utilized to verify milk weights, component tests and samples. Verification organizations should be 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:** A competitive dairy market drives innovation and excellence, both for farmers and processors. Edge's plan would increase understanding of pricing formulas and risk management to build more financially sustainable farms and drive a competitive marketplace for processors.
 - 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:** Equity is fundamental to Edge's priorities. Under our contracting principles, farmers would have equal opportunities, processors would be treated equally and both would be assured that the other is operating in good faith.
 - 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.