



## Class III Plus milk pricing proposal

A Federal Milk Marketing Orders pricing reform proposal from the Dairy Business Association, Edge Dairy Farmer Cooperative, Minnesota Milk Producers Association, Nebraska State Dairy Association and South Dakota Dairy Producers.

### Core components:

- To facilitate producer risk management and reduce likelihood of depooling and negative producer price differentials, the Class I skim milk price will be calculated as the Class III skim milk price plus the Class I skim milk price adjuster. In all FMMO pricing formulas, advanced prices will be replaced with announced prices.
- To facilitate orderly marketing and abundant supply of beverage milk, the U.S. Department of Agriculture will publish a revised Class I skim milk price adjuster each September for the forthcoming calendar year. The Class I skim milk price adjuster will be equal to the average of the monthly differences between the higher of Class III and Class IV skim milk prices, and the Class III skim milk price during the prior 36 months of August through July.
- To facilitate faster convergence toward revenue-neutrality after COVID-19, the Class I skim milk price adjuster for 2021-2025 shall not be lower than \$0.36/cwt.

### Practical effects:

- Improves risk management and hedging for dairy farmers and processors
- Stops the disassociation of advanced pricing that can cause negative producer price differentials
- Does not increase prices to customers in the long term
- Focuses on being a long-term fix to several existing milk pricing problems, and not just correcting issues of the past 24 months
- Ties Class III (cheese) pricing to Class I (fluid) pricing, which would reduce the need for Class III plants to depool
- Keeps PPDs positive more often in more marketing orders than the current pricing system
- Utilizes three years of data to annually update Class I skim milk price adjusters to limit any one-year shocks, but also takes into account the changing nature of milk processing

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